

CALIFORNIA HIGH-SPEED RAIL AUTHORITY

MONTHLY MEETING

TRANSCRIPT OF PROCEEDINGS

Department of Health Care Services

1500 15th Street

Sacramento, California 95814

Tuesday, February 11, 2014

9:12 a.m.

BRITTANY FLORES

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A P P E A R A N C E S

BOARD MEMBERS

Mr. Dan Richard, Chairman

Mr. Jim Hartnett, Vice-Chair

Mr. Tom Richards, Vice-Chair

Mr. Richard Frank

Mr. Patrick Henning

Ms. Katherine Perez-Estolano

Mr. Michael Rossi

Ms. Lynn Schenk (via telephone)

Mr. Thomas Umberg

STAFF

Ms. Janice Neibel, Board Secretary

ALSO PRESENT

Mr. Jeff Morales, CEO

Mr. Thomas Fellenz, Esq., Legal Counsel

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1 SACRAMENTO, CALIFORNIA, February 11, 2014

2 9:12 a.m.

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4
5
6 CHAIRMAN RICHARD: Okay. Good morning.

7 This meeting of the California High Speed Rail Authority
8 is open.

9 The Board will now enter into a closed session to
10 discuss matters on the agenda, and we will report back
11 for the regular meeting at 10:00 o'clock. Thank you.

12
13 (Closed session.)

14
15 CHAIRMAN RICHARD: All right. I'm going to
16 proceed to open the meeting. Good morning. The meeting
17 of the California High Speed Rail Authority will come to
18 order.

19 Will the secretary please call the roll.

20 MS. NEIBEL: Vice-chair Richards.

21 MR. RICHARDS: Here.

22 MS. NEIBEL: Vice-Chair Hartnett.

23 MR. HARTNETT: Here.

24 MS. NEIBEL: Mr. Umberg.

25 MR. UMBERG: Here.

1 MS. NEIBEL: Mr. Rossi.

2 MR. ROSSI: Here.

3 MS. NEIBEL: Ms. Schenk.

4 Ms. Perez-Estolano.

5 MS. PEREZ-ESTOLANO: Here.

6 MS. NEIBEL: Mr. Henning.

7 MR. HENNING: Here.

8 MS. NEIBEL: Mr. Frank.

9 MR. FRANK: Here.

10 MS. NEIBEL: Chairman Richard.

11 CHAIRMAN RICHARD: Here.

12 It appears that this auditorium is missing their
13 American flag. So I understand that there's an America
14 flag -- oh. Okay. So will you please join me in the
15 Pledge of Allegiance.

16

17 (Pledge of Allegiance recited.)

18

19 CHAIRMAN RICHARD: Thank you, and I want to
20 thank our staff for that impromptu recovery.

21 Okay. So we will open with our public comment
22 session.

23 MS. SCHENK: Oh, wait. Dan, excuse me, did
24 you take roll?

25 CHAIRMAN RICHARD: We did, and we will now

1 record you as being here.

2 MS. SCHENK: Yeah, I was on the whole time,
3 but I guess you couldn't hear me.

4 CHAIRMAN RICHARD: Okay. We hear you now,
5 and so you're recorded as being here.

6 Ms. Schenk is at a site in Cambridge,
7 Massachusetts that was noticed for the meeting.

8 MS. SCHENK: And there are no members of the
9 public here.

10 CHAIRMAN RICHARD: All right. So we'll go
11 through our public comment period, and we'll start, as
12 we do, with members of our elected official community
13 and starting with Fresno Supervisor, Henry Perea.

14 Supervisor Perea, welcome and good morning.

15 MR. PEREA: Thank you, Mr. Chairman, members
16 of the Commission. It's great to be here today. It's
17 tougher on Tuesdays, because that's usually when our
18 board meets, but today we're off. So it's great meeting
19 with you today. But I just want to, again, just bring
20 you Fresno County's warm wishes of very supportive of
21 what we're doing, very pleased with the recent business
22 plan that came out. I think it makes a lot of sense.
23 So just asking you to keep moving forward. A lot of
24 progress happening, and we're looking forward to turning
25 dirt in Fresno County, Madera soon. Thank you.

1 CHAIRMAN RICHARD: Thank you, Supervisor.
2 We appreciate it.

3 Next, we'll have Kevin Dayton, and he'll be
4 followed by Vita Wright.

5 MR. DAYTON: Kevin Dayton, president/CEO
6 Labor Issues Solutions in Roseville. I'm here to talk
7 about the business plan you have put out. My first
8 comment about it is that I think this business plan is
9 pretty much incomprehensible to any ordinary citizen who
10 isn't following this closely. I do understand that you
11 submit this to the legislature and not to the people.
12 However, I'm going to guess that most of the
13 legislature, especially with term limits, isn't going to
14 really be able to understand this in context. I think
15 it's overly wordy. They are deficient in graphs and
16 charts that might allow people to understand what's
17 going on. Things get really fuzzy once you get into the
18 2020s, no surprise, but I think it would be better for
19 the Board to be frank about the uncertainties and
20 challenges you're facing rather than to put this
21 together, which has a very rosy view.

22 Just looking over it, and I think for somebody to
23 look at this completely, you'd have to spend many hours
24 going through it line-by-line to figure out everything
25 that's in there, but I saw, for example, on page 14,

1 your yellow initial operating segment appears to go to
2 Santa Clarita rather than Palmdale. I'm a little
3 confused by that because I thought this was going to be
4 going to Palmdale. Also, I think the people of Santa
5 Clarita are under the impression that you're going to
6 build tunnels, and they're sort of not paying that much
7 attention right now because they think there are other
8 options

9 I looked at -- you say in there on page 72, 97.5
10 staff have been hired. I wondered is that related to
11 two months ago when you said you were looking for 175
12 staff positions and you had 94, which means in only two
13 months you've brought in 3.5 people.

14 I point out on page 23, the Community Benefits
15 Agreement. I mention that it's the State Building
16 Construction Trade Council that's signatory to that and
17 that for that grant through the Fresno County workforce
18 investment board, you have to go through unions to get
19 trainings.

20 These are just a few of the many things, and I'm
21 going to be submitting a pretty lengthy analysis of
22 this, but I think the business plan really needs to be
23 redone so that the ordinary voter can understand what
24 you're talking about. Thank you.

25 CHAIRMAN RICHARD: Thank you, Mr. Dayton.

1 Let me point out that we will have a presentation later,
2 and they'll be multiple opportunities for public input
3 on the draft business plan before it is submitted to the
4 legislature, but thank you for your comments.

5 Vita Wright followed by Robert Allen.

6 MS. WRIGHT: Chairman Richard, distinguished
7 members of the Board, good morning. My name is Vita
8 Wright, and I'm the California regional vice president
9 for the Society of American Military Engineers commonly
10 known as SAME. SAME is a worldwide organization with
11 20,000 members, a hundred and five posts around the
12 world, and 1500 member companies and public agency
13 members. Our members are primarily engineering and
14 construction professionals from private sector, civilian
15 members of the Department of Defense, members of our
16 armed forces from Army, Navy, Air Force, Coast Guard,
17 and National Guard. We have 3,000 members in
18 California, and we operate in seven locations throughout
19 the state in Sacramento, San Francisco, Oxnard, Ventura,
20 Los Angeles, San Diego, Orange County, and Inland
21 Empire. Our members are a strong supporter of the
22 California High Speed Rail, and we're delighted that we
23 have been accepted to participate in the Authority's
24 Business Advisory Council. I'm honored and privileged
25 to be representing SAME in the council.

1 I should also mention, I'm a small business owner
2 and truly appreciate the Authority's effort and
3 commitment to creating meaningful opportunities for
4 small business participation in this iconic and
5 transformational project for our state.

6 Finally, I should mention that the California
7 High Speed Rail Project has many supporters.
8 Unfortunately, the supporters are not either as vocal or
9 as organized as they should be.

10 Thank you very much for your time.

11 CHAIRMAN RICHARD: Thank you, Ms. Wright,
12 and I apologize for slightly mispronouncing your first
13 name. I'm sorry.

14 Mr. Allen, good morning. Do you have a song for
15 us today?

16 MR. ALLEN: No song today. I'm speaking
17 specifically of the Bay Area; however, the concept
18 applies to southern California as well.

19 Californians, in 2008, approved Proposition 1-A,
20 the safe, reliable high-speed passenger train bond act.
21 High-speed rail needs a secure right of way, without
22 grade crossing, without public access through its
23 tracks. Blended rail, at least, high-speed rail on the
24 Caltrain tracks would be neither safe nor reliable with,
25 well, the Caltrain's many stations and 43 grade

1 crossings.

2 I have proposed an alternate, upgrading Amtrak's
3 East Bay route from Santa Clara up to the San
4 Francisco -- a new San Francisco Bay Area intermodal
5 rail hub station in Oakland where BART crosses over the
6 railroad track. BART trains run every four minutes from
7 there, would reach all four downtown San Francisco
8 stations in six to eight -- six to ten minutes. Is sure
9 a lot more frequent and fast, shorter time than the San
10 Francisco airport.

11 This would allow easy extension from the Bay Area
12 rail hub to Sacramento without a new costly trans bay
13 rail crossing. It would also eliminate the need to
14 use -- misuse statewide funds for tunneling in San
15 Francisco and for San Francisco electrification.

16 I urge that you make interim plans for high-speed
17 rail from the south land, from LA, just to San Jose, the
18 Bay Area's largest city, and at San Jose have cross
19 platform transfers to Caltrain and Capitol Corridor,
20 that you eliminate any further high-speed rail funding
21 on Caltrain. Thank you.

22 CHAIRMAN RICHARD: Thank you, Bob.

23 Next speaker is -- I hope I have this right --
24 Virgil Wolfolk followed by Paul Dyson.

25 Sorry. I hope I produced your name correct, sir.

1 MR. WOLFOLK: Virgil Wolfolk, sir.

2 Let me find my notes here. I apologize.

3 The reason I'm here this morning --

4 CHAIRMAN RICHARD: I'm sorry, sir, could you
5 speak into the microphone, because we want your remarks
6 to be recorded.

7 MR. WOLFOLK: I'm sorry. Good morning. The
8 reason I'm here this morning is to speak regarding this
9 Item 3 on the agenda. I'm a disable veteran, minority
10 business, disadvantaged business, service disabled
11 veteran business. When this project was produced or
12 known to the public, as it was me in Fresno, it was told
13 that disabled veterans could be primed -- prime
14 contractors on this project. We would never participate
15 in that role if this had been told of us that this was a
16 scam. We were asked seven times whether -- that this
17 was actually going to happen. He said, "absolutely."
18 So we bid as a prime. Now, we didn't even get an
19 interview. So I challenge that the first time. So my
20 question to them was, "Were any of the other primes
21 disabled vets? Were any other primes disadvantaged
22 business or minority business?" And they wouldn't
23 answer, but they pulled it.

24 This time, I met with Mr. Padilla, and he said,
25 "Mr. Wolfolk, we're going to increase this opportunity

1 for you guys on this project. You'll get a chance."
2 And then they raised this damn thing to \$5 million
3 knowing doggone well we couldn't participate because the
4 bond insurance was so high, that we had to pay auto
5 insurance and workers comp. For me to play, it was
6 going to be \$20,000 right out of the box. We could have
7 done it at a million. That was fair. We could have
8 hired veterans and gave them an opportunity. I'm the
9 guy who wrote the President, who signed this thing
10 yesterday to hire more vets. This doesn't make that
11 happen.

12 And you know what the worse part is, and I talked
13 to Mr. Fong today, is that Mr. Fong and Mr. Padilla
14 won't even return phone calls.

15

16 (Mr. Wolfolk turned around and indicated he was not
17 referring to Russell Fong.)

18

19 MR. WOLFOLK: It's inexcusable. This things
20 needs to be pulled and done right so small business
21 actually have an opportunity. So much is not a small
22 business. What this happens is that you let these
23 companies put these fringe, small businesses that are
24 not really -- can't go do work -- and they give them
25 percentages. Percentages doesn't count. It only gives

1 a million dollars to one guy. You got to start changing
2 it to where that dollar is producing a job. Unless
3 you're sure these vets are getting work on these jobs or
4 other people, it's a failure. You have an integrity
5 problem here. People don't believe this is for real,
6 and all they did is just feed to that.

7 This is a good project. It should work. It can
8 help a lot of people, but I tell you, sir, you have got
9 to fix this. You have got to dial this back.

10 Now, some woman wrote a letter yesterday
11 concerned about it, and other folks are looking at this.
12 They're looking at this, and if this thing goes the way
13 it goes today, it's just going to be a mess. Fix this.
14 Hold your staff accountable. Make them do what they
15 said they're going to do. There was 1100 parcels that
16 was supposed to be on this project included in Fresno,
17 and all of a sudden it dropped to 700. What happened to
18 the other 600? And it took from October to June of last
19 year for them to finally put it out. That's a long
20 time.

21 We vets needs the work. We need the work. So
22 make it work so we all work, not just the big companies.
23 You want to let all the big companies do the work?
24 Okay, but don't mislead us. Now we can't even get on
25 any of the other teams, because we can't get on their

1 teams because the teams have been set. I could have
2 been on all four teams. I actually do survey. I
3 actually do environmental. We actually were going to
4 met with DBE and actually were going to hire vets to go
5 to work on this project. We were the only ones who did.
6 We were ahead of the curve with what the President
7 talked about yesterday. This is a scam if you don't do
8 this right. Your integrity is on the line. The state
9 opportunities for new opportunities is on the line, and
10 I'm quite sure the Governor's going to be really ticked
11 off to find out that this is going on.

12 Now, those are my comments, and thank you very
13 much.

14 CHAIRMAN RICHARD: Thank you, sir. We will
15 have a discussion about this when this item is before
16 us, but I appreciate your comments and concern.

17 Mr. Dyson, Paul Dyson from Rail PAC followed by
18 Frank Oliveira and then Ted Hart.

19 MR. DYSON: Good morning, Mr. Chairman and
20 Board members. My name is Paul Dyson. I'm the
21 president of the Rail Passengers Association of
22 California, also council member for the National
23 Associations of Railroad Passengers. I represent
24 probably about 3,000 members of both those
25 organizations, who really should be the basis of your

1 support for this project.

2 We have -- Rail PAC has been around since the
3 late 70s campaigning for modern passenger railroad
4 services, and our basic philosophy has always been
5 incremental improvements to passenger rail plus bridging
6 the gap between Bakersfield and Los Angeles, which is
7 the gap in the statewide system. In the mid 2000s, the
8 High-Speed Rail Project decided to take form, and we got
9 on board with that. We, I guess, changed a little bit
10 from "evolutionists" to "the big bang theory," but we
11 have this one big project that would solve our passenger
12 rail problems and deliver some useful transportation,
13 and I think the people that have voted for that figured
14 that there was a project ready to go. They expected,
15 when they voted for these bonds, to see something
16 happening in pretty short order once that initiative 1-A
17 had been passed. But here we are, six years later, with
18 no transportation delivered, nothing to show for it.
19 And our members, and I think the general public, are
20 getting frustrated and cynical about the whole project.
21 The support is evaporated, and I would say that time is
22 running out, getting something delivered.

23 Now, the possibility of delivering useful
24 transportation from new high-speed rail construction, of
25 course, is very limited; it takes time. But there are

1 other peripheral projects, such as the run through
2 tracks, the script project in Los Angeles, and some
3 other projects for connections to future high-speed rail
4 that could be accelerated and could be delivered. You
5 really need to take up the propaganda war and say that
6 these projects are on the way and these benefits will be
7 delivered, otherwise, you'll just lose the rest of the
8 support that you have. Thanks.

9 CHAIRMAN RICHARD: Thank you, Mr. Dyson.

10 Frank Oliveira followed by Ted Hart followed by
11 David Schoenbrun.

12 MR. OLIVEIRA: Frank Oliveira. I'm with
13 Citizens for California High Speed Rail Accountability.
14 I spoke before you many times. Okay. I'm going to talk
15 about some very specific things pertaining to the
16 business plan, okay, and other documents and meetings
17 that I have been to. One of the things that was
18 referenced in the documents I'm reading is that the
19 public comment pertaining to the business plan is going
20 to be summarized for the Board. Okay. Who's going to
21 do the summarizing, and is that appropriate, if that's
22 in a document. So if I make a comment to the Board, is
23 the Board going to read it, or will it be summarized,
24 kind of categorized, you know, a 'yay' or 'nay' type of
25 thing? That's a little bit confusing.

1 Another question is about the ICS or the FCS or
2 the Initial Construction Section or whatever we want to
3 call it. At one time, that was from Merced to
4 Bakersfield I believe. Then it changed from Madera to
5 Bakersfield. Then it was from Madera to just north of
6 Bakersfield. Now I'm at meetings listening, and it's
7 one mile north of Kern County. So is the ICS or the
8 FCS, is it really from Madera to the middle of nowhere,
9 between Corcoran and Wasco somewhere? Is that a usable
10 segment? Is their independent utility by doing that?
11 Is that the facts, because if that's the fact, it would
12 be good in public outreach if that was communicated that
13 "this is where we're going, and we dropped the
14 Bakersfield conversation."

15 Next issue is the Hanford station or the Kings
16 Tulare regional station. I believe it was station 25
17 out of 24 authorized stations. Is the Hanford station
18 really going to be built? If it's going to be built,
19 who's going to pay for it? Will it be paid for by the
20 City, the County, or the State? Who will do that?
21 That's a confusing matter in the community right now,
22 and I think it's an important matter so people
23 understand what is at stake here.

24 Lastly, I don't see where you have included the
25 cost of running this rail alignment along ten miles of

1 high voltage transmission lines. Based on what I'm
2 looking into, it looks like that's going to add another
3 five to ten years to your project and another half a
4 billion dollars to a billion dollars to your project.
5 There's no reference to that in any of your planning
6 documents, but that's a big thing, and your staff have
7 known about it for three years. So why isn't that being
8 conveyed in your dollars and your cents in your business
9 plan, because that is part of the ICS.

10 Thank for your time.

11 CHAIRMAN RICHARD: Thank you, Mr. Oliveira,
12 and when we have the staff presentation today, I'll ask
13 specifically about the public comment questions and --

14 MR. OLIVEIRA: Thank you.

15 CHAIRMAN RICHARD: -- and make sure these
16 others are addressed.

17 Mr. Hart, good morning.

18 MR. HART: Good morning. I have been in
19 front of the Board a good number of times. I want to
20 address a couple of issues on the new business plan,
21 which, obviously, is going to take us quite a while to
22 go through that and study it in more detail.

23 First off, I have brought to the Board before the
24 voter initiative to the Board, and I know you already
25 have all those on the voter information guide, but I

1 would like to reference that. There is a 9.95 billion
2 in bonds to be issued for the clean, efficient
3 high-speed rail service linking southern California,
4 Sacramento, San Joaquin Valley, and the Bay Area. And
5 the analysis -- and this is where it becomes
6 important -- the analysis by the legislative analyst is,
7 quote, "the entire high-speed rail system would be about
8 \$45 billion." Note the word "entire," and this is the
9 point that I have tried to make over and over again,
10 that means the entire state consisting of 800 miles of
11 track. It does not mean just phase one, consisting of
12 520. This takes us to the business plan, and in the
13 2012 business plan, in Exhibit 3-5, the cost to
14 construct phase one blended has two columns. Again, on
15 the 2012, you have a high-cost option and a low-cost
16 option. Your high-cost option is 17 percent higher than
17 the low-cost. In the 2014 business plan, the same
18 exhibit, except there is no high-cost option column.
19 Why is that? Why the change? Is there something that's
20 missing here? It's just like it disappeared.

21 Back to 2012, the low-cost option for phase one
22 was 53.4 billion. The high-cost was 62.3 billion, and
23 the year of expenditure dollars that has been advertised
24 over and over again, total cost for phase one, 68
25 billion. All of these numbers conveniently avoid the

1 cost for the entire statewide system consisting of the
2 800 miles, which is the only thing the taxpayers voters
3 were ever given in the voter guide. There's no
4 description of anything other than 800 miles, and yet,
5 everything has been focused on 520 miles.

6 So since the 2014 business plan does not provide
7 a total cost for the entire system, we're left to our
8 own to establish what these costs might be, which is
9 pretty easy to do. You take 520 miles of track for 67.6
10 billion, and that equates to \$130 dollars per mile, and
11 then you just go ahead and take and multiply that times
12 280 miles, which equates to 36.4. Add that to the
13 other, and you now have a total cost of the entire
14 system of \$104 billion. Now, if you don't want to do
15 that, if you don't want to use those numbers, then I
16 suggest that you put something in the business plan to
17 tell us how much is this project going to cost for the
18 entire system.

19 So why has all of this been left out? Could it
20 be that you had a really good thing going with the media
21 with the 68 billion, which has been the advertised
22 number. And if I were in your position, I would like it
23 also, because the total cost for the entire project just
24 got lost somewhere along the line.

25 So rather than take any more time at this time, I

1 would hope, Mr. Morales, that you would be able to
2 answer these question during your presentation. Thank
3 you very much.

4 CHAIRMAN RICHARD: Thank you, Mr. Hart.
5 David Schoenbrun.

6 MR. Schoenbrun: Good morning, Mr. Chairman.
7 David Schoenbrun, TRANSDEF. My preference would be to
8 offer my comments after the presentation.

9 CHAIRMAN RICHARD: Mr. Schoenbrun, I'm
10 sorry, but we traditionally have all of the public
11 comments prior to items on the agenda.

12 MR. Schoenbrun: That's taking things out of
13 context.

14 I'm here today to announce to the world that the
15 emperor has no clothes. While there's no -- while
16 there's new information in this plan, it's only a
17 distraction, because the plan offers no way to move the
18 project forward. This document can't possibly be
19 considered a business plan since it offers no concrete
20 details on how you will fill a \$21-billion hole. As it
21 currently stands, your so-called business plan is
22 essentially a hole. Be on the lookout for a leprechaun
23 with a pot of gold.

24 Without a dramatic infusion of money, you don't
25 have a project, and you certainly don't have a business.

1 Without that dramatic infusion of money, this is not
2 high-speed rail, it's a downtown Fresno improvement
3 project. The problem here is that you think you're
4 building another BART extension when you're actually
5 building a business. That's something that political
6 institutions, like yours, have no demonstrated
7 temperament or competence to pull off.

8 TRANSDEF has a proposal on its website,
9 transdef.org, for changing the direction of this
10 project. It's based on the state rail plan and on the
11 Senate's Plan B from 2012. If you were to move fast
12 enough to get voter authorization for modifications to
13 the bond pressure, it is conceivable that the Federal
14 grants could be put to use in a way that gives direct
15 benefits to many millions of Californians.

16 The draft plan doesn't contain any alternative to
17 public private development strategies for the
18 implementation of phase one as required by 1029. While
19 the plan does lay out its proposed public private
20 development strategy that doesn't meet any reasonable
21 interpretation of alternatives. You might wonder what I
22 mean by that. The Authority has already received at
23 least one example of an alternative. The French
24 National Railway, SNCF, prosed that the Authority
25 conduct an RFP process leading to a predevelopment

1 agreement where a private sector entity would lead the
2 development of the project. To meet the requirements of
3 1029, TRANSDEF believes you need to discuss the proposal
4 that SNCF made to you.

5 Interestingly, the plan notes on page 54 the cost
6 savings that can come from private sector involvement,
7 yet doesn't mention the possibility of bringing in a
8 private partner before starting construction. As to the
9 consistent claim your agency has made that there's no
10 interest in investing at the beginning of this project,
11 it's important to note the context. Nobody was
12 interested investing in the route this board approved.
13 If you were to allow bidders to select their own routes,
14 I have reason to believe there would be investment
15 interest at the beginning.

16 Thank you for considering these comments.

17 CHAIRMAN RICHARD: Thank you,
18 Mr. Schoenbrun.

19 Next, Ms. Jillian Means of Fresno.

20 MS. EAGER: Good morning. Before I
21 introduce my special guest, I'm going to tell you a
22 quick little story, a small-world story. I was invited
23 by the State of Punjab in India to come talk about the
24 wonders of Fresno County, which, of course, I did. And
25 in one of the speeches, there was about 250

1 entrepreneurs and business owners in the room in Sagar,
2 India, and I was talking about all of the things that
3 Fresno County has to offer and the opportunities that we
4 have, and, of course, I talked about high-speed rail and
5 what was starting there. After the meeting, I had a
6 line of people that came up to talk about how they would
7 like to do business with us in Fresno, and this one
8 gentleman came up to me, and he said, "Oh, you're
9 working on the high-speed rail thing in California?"
10 And I said, "Oh, you know, here in Fresno County, it's
11 starting." And he said, "I happen to own some property
12 on what's called the Chowchilla Y. Would you be able to
13 help me with that?" And here I was in India, so it's
14 everywhere. We can't get away from it.

15 But, obviously, I have been talking many years
16 about the importance of this project to generations to
17 come, and one of those is my grandchildren. And I know
18 I have talked many times about my grandchildren. This
19 happens to be one of my grandchildren, Jillian Means.
20 She's eight years old. When she was four, she came into
21 my office at the EDC, and she drew a huge picture of
22 what she thought the high-speed rail was going to look
23 like. She had the trains. She had the background. She
24 had what was going to build up around the high-speed
25 rail. That is still on my wall, so if you ever come to

1 Fresno, please come and look at Jillian's artwork. But
2 I thought it was important at this time for her to tell
3 you -- and she wrote her speech herself. No help from
4 Nana -- for her to come and tell you why she thinks this
5 is important to her. So this is my granddaughter,
6 Jillian.

7 CHAIRMAN RICHARD: Welcome.

8 MS. MEANS: Thank you. Okay. Hi, my name
9 is Jillian Means, and I am here to tell you about how
10 the high-speed train can help. I moved away from a lot
11 of family and friends this summer, and it's really hard
12 to visit them, because there's so much traffic in the
13 road, and sometimes, we just sit there for twenty
14 minutes, which is boring. And my family and friends
15 already live six hours away, but if you're on the
16 high-speed train, it will only take about two. And
17 also, less cars on the road means less pollution in the
18 air. The high-speed train makes it ten times easier to
19 get to far away places, like one of my favorite places,
20 Disneyland. Some kids have never even been to
21 Disneyland because it's so far away. Well, if you're on
22 the high-speed train, it will only take about an hour
23 instead of like maybe five, four -- I don't know.

24 Um, when the high-speed train is finished, I will
25 be in college, and my nana can visit me a lot, bringing

1 me treats. And that's why I think the high-speed rail
2 is a very important project, and it can help change a
3 lot of problems. Thank you.

4 CHAIRMAN RICHARD: Well, I think that the
5 high-speed rail will only be able to bring your nana to
6 visit you if we build it in Harvard in Cambridge,
7 Massachusetts, because that's clearly where you're
8 headed. Thank you, Miss. Means.

9 Next is Marvin Dean followed by our last speaker,
10 John Bart.

11 MR. DEAN: Good evening -- good morning. I
12 wasn't going to speak but I'm here representing --

13 CHAIRMAN RICHARD: Hold on one second,
14 Mr. Dean. Could you just hold the microphone closer. I
15 want to make sure that we're picking up your comments.

16 MR. DEAN: Yes.

17 CHAIRMAN RICHARD: Thank you.

18 MR. DEAN: I said I'm here representing the
19 Kern supporters for high-speed rail. I, initially,
20 wasn't going to speak today, but I feel I should come
21 and say a few things since I wasn't here at the last
22 meeting. And that is really -- I would -- two things
23 that were said today that I want to echo on. One is the
24 last speaker, the young lady, because I really think
25 that if we do not build this high-speed rail, then the

1 generation, and her generation, that's really going to
2 be the big beneficiary of this project, it's going to be
3 a missed opportunity. When people say "why now" or
4 "wait 'till the future," I want to make one case why
5 now. The cost of money right now, bonds and also
6 financing right now is probably going to be the lowest
7 we're ever going to see in a long time, and so the
8 longer we wait, the interest rates goes up, it's going
9 to cost us a lot more than if would build this thing out
10 today.

11 And I would also echo somebody that spoke earlier
12 that said those supporters of the high-speed rail
13 project do not say a lot, and I would put a challenge
14 out to those of us that support the project. We need to
15 be very vocal in letting the communities in which we
16 live in that we support this project and tell the story
17 why we support it. And I would hope to those that are
18 opposed to the high-speed rail project find a way to see
19 if we can bridge our differences and work with this
20 Board, because this project is going to be good for the
21 entire state, all of us, and our children to come. And
22 our children are going to look back at us, when she gets
23 to a point -- the young lady who just spoke a minute
24 ago -- and get to be our age and we missed this
25 opportunity, and the mess that we're going to have to

1 move people from one end of the state to the next,
2 they're going to wish, "why didn't our, our, our, our
3 leaders didn't do a better job when they had a chance
4 to?"

5 So, again, I would just challenge everybody, and
6 I would say to the Board, I know that you guys have got
7 your hands full with some of these things, the challenge
8 you have to pull this together. So I would just
9 encourage you to stay the course, because some of us
10 appreciate what you're doing, and I think you have a
11 good staff in place, a good board in place. I think, we
12 put our heads together, we can bring this project
13 together for the state and benefit all of us. Thank
14 you.

15 CHAIRMAN RICHARD: Thank you, Mr. Dean.

16 Our last speaker is John Barnum.

17 MR. BARNUM: Chairman and members, I'm John
18 Barnum. I'm with ACOM but representing the Association
19 for California High-Speed Trains today. I want to speak
20 to Item Number 5 and commend staff on a well-done
21 business plan. They seem to get better and better, and,
22 in particular, want to point out that the application of
23 risk management is a big plus to this plan, and also the
24 peer review work that's done into the input is a strong
25 positive especially as it goes to the legislature. And

1 ACHST is also pleased that the Governor is, is proposing
2 the possibility of ongoing funding through cap and trade
3 for this effort. That is going to be a game changer for
4 the private sector, and there have been a couple of
5 comments today about bringing in the private sector. We
6 have long said that having a stable, ongoing revenue
7 source was critical. It wasn't just critical because we
8 were looking for those funds to pay for the private
9 sector. What it does is it represents a long-term
10 commitment by a reliable public sector partner, and
11 that's what the private sector needs is a long-term,
12 reliable public sector partner. We think this business
13 plan is a big step forward toward that. And Keith Dunn,
14 our executive director, will clearly be taking this
15 message back to the Capitol as budget subcommittees and
16 policy committees review the business plan and the
17 Governor's proposal.

18 So I just want to congratulate staff for getting
19 to this point, and we look forward to working with you
20 to secure the necessary resources to make that private
21 sector investment a key part of the implementation.
22 Thank you.

23 CHAIRMAN RICHARD: Thank you, Mr. Barnum.

24 Thanks to all our commenters this morning.

25 That concludes the public comment portion of the

1 agenda. We'll now move to the regular order of the
2 agenda.

3 The first item is the approval of the board
4 meeting -- board minutes from the January 14th, 2014
5 meeting.

6 MR. HARTNETT: Move approval.

7 MR. ROSSI: Second.

8 CHAIRMAN RICHARD: Okay. It's been moved by
9 Vice-Chair Hartnett, seconded by Mr. Rossi.

10 Will the secretary please call the roll.

11 MS. NEIBEL: Vice-Chair Richards.

12 MR. RICHARDS: Yes.

13 MS. NEIBEL: Vice-Chair Hartnett.

14 MR. HARTNETT: Yes.

15 MS. NEIBEL: Mr. Umberg.

16 MR. UMBERG: Aye

17 MS. NEIBEL: Mr. Rossi.

18 MR. ROSSI: Aye.

19 MS. NEIBEL: Ms. Schenk.

20 Ms. Perez-Estolano.

21 MS. PEREZ-ESTOLANO: Yes.

22 MS. NEIBEL: Mr. Henning.

23 MR. HENNING: Aye.

24 MS. NEIBEL: Mr. Frank.

25 MR. FRANK: Abstain.

1 MS. NEIBEL: Chairman Richard.

2 CHAIRMAN RICHARD: Aye.

3 Lynn Schenk, can you hear us?

4 MS. SCHENK: Yes, I can. Yes. Can you hear
5 me?

6 CHAIRMAN RICHARD: All right. We will
7 record your vote as "aye."

8 MS. SCHENK: Aye, yes. I'm sorry for the
9 technical --

10 CHAIRMAN RICHARD: No, we apologize out here
11 for that.

12 Okay. So the minutes are approved. The next
13 item is Item Number 3, the award of right of way
14 engineering and survey support services contracts.

15 Ms. Gomez.

16 MS. GOMEZ: Good morning.

17 CHAIRMAN RICHARD: Good morning

18 MS. GOMEZ: So I am to request approval for
19 the award of five contacts related to right of way
20 engineering and survey support services. The total
21 value of the services required is not to exceed an
22 amount of 16 million over a four-year period. Back in
23 December of 2013, the Board approved the resolution
24 1333, which allowed us to issue a request for
25 qualification to obtain statements of qualification from

1 qualified entities to provide those services. Delivery
2 of the first construction segment in the Central Valley
3 will require the acquisition of -- in excess of a
4 thousand parcels of real property. In order for us to
5 effectively acquire the right of the way, it is
6 necessary to obtain the personnel and the expertise of
7 external providers. Multiple contracts will be required
8 to carry out this critical work. The scope of the
9 services to be contracted include administration,
10 project management, progress reports, including final
11 reports, information, and project tracking systems. The
12 technical services, which is this bulk of the work,
13 include boundary maps, monumentation maps, survey
14 control maps, records of survey, lot line adjustments,
15 subdivision maps, legal descriptions parcel maps,
16 appraisal maps, certificate of compliance, and staking
17 and marking of the parcels.

18 The procurement process for these contracts was
19 managed directly by the Authority staff consistent with
20 the State's competitive architectural and engineering
21 procurement process. 14 proposals were received and
22 evaluated by the team in accordance with our regulations
23 and procedures. Interviews and discussions were held
24 with the teams on January of this year to further the
25 evaluation process and serve as a basis for ranking the

1 top proposers. The staff is recommending board approval
2 to finalize negotiations and execute contacts with five
3 teams in the amount not to exceed 3.2 million for a term
4 of four years. The firms are O'Dell Engineering,
5 Chaudhary and Associates Incorporated, Quad Knopf
6 Incorporated, Mark Tomas and Company Incorporated,
7 Hernandez Cruz and Associates Incorporated. All five
8 teams were composed of experienced engineering and
9 license serving firms. Four of the teams are one
10 hundred percent small business. For all five teams, the
11 primary office is -- under the contracts, will be based
12 in the Fresno, Tulare, or Kings County. The contracts
13 that will be issued -- will include the Board's adopted
14 30 percent participation goal under the revised small
15 and disadvantaged business enterprise program for
16 professional services contacts.

17 CHAIRMAN RICHARD: Thank you, Ms. Gomez.

18 You know, I have a lot of respect for the staff
19 and for your work, in particular, but I am concerned
20 about the comments that Mr. Wolfolk made this morning.

21 Let me turn to our CEO and ask if he could -- if
22 he could address those.

23 MR. MORALES: Certainly, Mr. Chairman. The
24 procurements that we're presenting was conducting with
25 an RFQ through a competitive process, as Ms. Gomez

1 detailed. We take very seriously, as we have reported
2 to the Board on other occasions, the Board policy and
3 the goal of attaining 30 percent small business
4 participation, and included within that, that three
5 percent small business disabled veteran business
6 participation and do a lot of outreach to try to make
7 sure that firms who are qualified are, are participating
8 in the program and able to compete. And where possible,
9 we try to structure the contracts to make it -- to
10 maximize those opportunities for competition. I think
11 the result here speaks to that. You know, four of the
12 five firms are, in fact, small businesses.

13 With regard to the particular concerns, I have
14 been made aware of those. I can assure you, we will
15 follow up with Mr. Wolfolk to see if there are
16 opportunities to help him with the firms that have been
17 selected but also to ensure that his concerns are
18 addressed going forward and we can do what we can to try
19 to help make him as competitive as possible to win
20 contracts. It is a competitive process. We had 12
21 firms. There's an objective ranking that happens with
22 five, five panels who look at that, not all of whom are
23 Authority staff as well. So in any contract, we're
24 going to have firms who are successful and some who are
25 not, and we're going to do everything we can to provide

1 additional opportunities for firms to continue to
2 compete.

3 CHAIRMAN RICHARD: Okay. I appreciate those
4 remarks, and I guess I would just add, to the extent
5 that he's indicating that there might have been some
6 misunderstanding about the scope of being primed or sub,
7 I'd really like to ask the staff to reach out and make
8 certain that we're particularly diligent about helping
9 to communicate things, and my comments there do not
10 suggest that the staff was not. I want to be clear
11 about that, but given a project of this magnitude, we
12 always want to meet that standard. So I think that it
13 would be good for the staff to continue to work with
14 this gentleman and see what opportunities are there.

15 Comments or questions from other Board members?

16 I'm sorry. Yes, Mr. Umberg.

17 MR. UMBERG: One question I have is I
18 understand there were 12 entities that were considered,
19 five selected. Was there a preconceived notion that we
20 would choose five, or how did we arrive at five?

21 MS. GOMEZ: We determined -- when we were in
22 the resolution, we said we would award between four and
23 six, and so we broke it down based on the amount of work
24 and, and determined that five would be adequate to meet
25 the needs that we currently have for that section.

1 MR. UMBERG: Okay. Thank you.

2 MR. MORALES: And just to clarify, that is
3 what we're in -- a case like this, what we're trying to
4 do is strike a balance between spreading out the work
5 but also then having it manageable and allowing for
6 efficiencies and cost efficiencies and cost efficiencies
7 on their side as well as ours. So, you know, we,
8 theoretically, could have done this all with one
9 contract, or we could have done it with ten. In the
10 middle is what strikes the balance.

11 CHAIRMAN RICHARD: Ms. Perez-Estolano.

12 MS. PEREZ-ESTOLANO: Yes. I just have a
13 question about the range of each of the contracts being
14 about three to four million each, 3.2. Is that --

15 MS. GOMEZ: Each one is 3.2 million.

16 MS. PEREZ-ESTOLANO: Right.

17 MS. GOMEZ: Up to 3.2 million.

18 MS. PEREZ-ESTOLANO: So the question I have
19 is for a small business to receive the kind of insurance
20 coverage for that kind of contract -- is high for a
21 small business. And so just hearing the comments
22 earlier and having my own small business and
23 understanding what it means to have that kind of
24 coverage -- would mean that, that prime or sub even
25 would have to go and get that kind of coverage to

1 actually receive the contract. And so my question is
2 was there thinking in terms of breaking it down to
3 different levels, for example, a firm that was larger be
4 able to take, maybe, maybe five or six million of the
5 work and then at least add an entry level point, maybe,
6 lower? I'm not -- I don't -- again, I agree with our
7 Chair. I don't want to micromanage here. I just want
8 to understand how we give access to different price
9 firms.

10 MS. GOMEZ: Out of the 14 proposals that was
11 submitted, more than half were one hundred percent small
12 business. And so we -- in interviewing with them, we
13 thought that if we would have went down to just four,
14 that would have been a higher amount. And so we
15 determined that five, the five with the 3.2 million was
16 doable for the small businesses that, that we selected.
17 So we did have a considerable amount of them one hundred
18 percent small business that submitted the original
19 proposals.

20 MR. UMBERG: Just one final question,
21 Mr. Chair.

22 CHAIRMAN RICHARD: Of course.

23 MR. UMBERG: So what's the order of
24 magnitude of the insurance, assuming legal bond; is that
25 right?

1 MS. GOMEZ: That's correct.

2 MR. UMBERG: A bond plus all the other
3 general liability insurance. What would one of these
4 entities need to put out, initially, before they even
5 begin to work or get a single paycheck? What kind of
6 money are we talking about?

7 MS. GOMEZ: I don't have that amount, but we
8 can get that to you. I don't have it.

9 MR. UMBERG: I'm just trying to figure out
10 upfront, what the upfront cost is for small business.
11 Okay. Thank you.

12 MR. RICHARDS: It should be generally
13 somewhere in the neighborhood of one and a half to two
14 percent of the contract.

15 CHAIRMAN RICHARD: All right. Pleasure of
16 the Board on this?

17 MR. RICHARDS: I would move for approval,
18 Mr. Chair, and I'm satisfied with the process. I'm also
19 very satisfied with what our CEO committed a moment ago
20 with regards to trying to help those firms who were not
21 successful to work towards helping them be successful in
22 the future.

23 CHAIRMAN RICHARD: Okay.

24 MR. HARTNETT: Second.

25 CHAIRMAN RICHARD: It's been moved by

1 Vice-Chair Richards and seconded by Vice-Chair Hartnett.

2 Will the secretary please call the roll.

3 MS. NEIBEL: Vice-Chair Richards.

4 MR. RICHARDS: Yes.

5 MS. NEIBEL: Vice-Chair Hartnett.

6 MR. HARTNETT: Yes.

7 MS. NEIBEL: Mr. Umberg.

8 MR. UMBERG: Yes.

9 MS. NEIBEL: Mr. Rossi.

10 MR. ROSSI: Yes.

11 MS. NEIBEL: Ms. Schenk.

12 MS. SCHENK: Yes.

13 MS. NEIBEL: Ms. Perez-Estolano.

14 MS. PEREZ-ESTOLANO: Yes.

15 MS. NEIBEL: Mr. Henning.

16 MR. HENNING: Yes.

17 MS. NEIBEL: Mr. Frank.

18 MR. FRANK: Yes.

19 MS. NEIBEL: Chairman Richard.

20 CHAIRMAN RICHARD: Yes.

21 Mr. Wolfolk, I know that this was probably
22 disappointing to you, but I think our staff is sincere
23 in wanting to look for opportunities for you and others
24 to participate in this project

25 MR. WOLFOLK: I understand that, sir, but if

1 I just may. Forgive me, but there's a significant
2 difference between a small business and a disadvantaged
3 business.

4 CHAIRMAN RICHARD: Mr. Wolfolk, I --

5 MR. WOLFOLK: I just want to be real clear
6 about that. Small businesses can be as much as 25 to 30
7 business. A disadvantaged business is way less. It's a
8 micro-business. That's the difference here, and for us
9 disabled veterans to even get to that level, you have to
10 change this process. This process was put out so that
11 we could get an opportunity, and that's why we get here,
12 and the fact that the first time you put it out, it was
13 only a million and to go almost to five, because that's
14 what the paperwork said, five, that put us out of the
15 range. I just want you guys to really understand that,
16 and then I'll sit down. Thank you.

17 CHAIRMAN RICHARD: Thank you, sir. We will
18 follow up on this.

19 Next item is Item 4, which is the Finance and
20 Audit Committee update and presentation of financial
21 reports by the executive staff. I'm going to ask
22 Mr. Rossi, who's the Chair of the Finance and Audit
23 Committee, to lead us through this. I would just like
24 to make one preparatory remark is that we did set up
25 this committee two years ago to help this organization

1 deal with both some negative audit reports and also the
2 need to create modern, transparent financial reporting
3 system as we move into the delivery of this major
4 project.

5 So in turning this over to Mr. Rossi, I just want
6 to express my thanks to him and to Tom Richards, the
7 second member of this, for what I know is a lot of work.
8 And, Mr. Fong, you're going to get the -- for the staff
9 work for putting up with all this.

10 Mr. Rossi.

11 MR. ROSSI: Thank you, Mr. Chairman. As I
12 was walking over here this morning from the parking
13 space, I have never been to this end of the capital, and
14 I didn't realize that the Department of Education was
15 just across the street, and as I was walking by, I saw
16 out of the corner of my eye, a quote that was on wall,
17 and the quote is -- I believe this is pretty close --
18 "All I ever wanted to learn were the secrets of heaven
19 and earth." That's what audit committees do, and as my
20 colleague, Mr. Richards, said, "and hopefully understand
21 what they mean." And so what we have done -- and I know
22 it's a lot of interesting -- to a number of parties --
23 is what it is we do. Well, what we do is advise and
24 recommend to the staff what we think would be the
25 information we need and the formatting that we need as

1 Board members to execute our fiduciary role in
2 governance. There are several things that you do in
3 order to make that happen in the standard finance and
4 audit committee. You have to get -- first, you have to
5 be sure there are policies and procedures, and then you
6 audit those policies and procedures to make sure that
7 they're followed, and if they aren't, you then set up
8 followups with the mitigation roles put in place. And
9 if they're done efficiently and quickly and manage the
10 concepts of the importance of priorities of those risks
11 to the overall success of the venture. You want to do this
12 in a way that is easy to review, so the reports you get,
13 people can read and understand, because we have a number
14 of constituencies, who look at these reports, so they
15 have to be user friendly.

16 Probably, the two most important things finance
17 and audit can do is put in place strong early warning
18 systems, and you'll see in the presentations today that
19 we have attempted to do that, and I would say they were
20 reasonably successful. And in a large project of this
21 nature, turnkey project and infrastructure project, you
22 want to watch for the migration of risk. And by that I
23 mean, at the beginning of the project, we have one set
24 of risk, set of priorities, and as you go through the
25 project, those risks and priorities change. New risks

1 occur, deal with those, and move to the completion.

2 So at the end of the day, what we're looking for
3 is early-warning, immediate response to that early
4 warning. You want an audit trail, so you know what was
5 done, how it was done, and who did it, and you want to
6 be sure that you are managing your risks over time
7 dealing with, not only the risks that you can have with
8 looking at the set of numbers, but looking at how that
9 changes probabilistic opportunities for problems to
10 occur.

11 We have been working, for some time, to get to a
12 place where we have these reports and they are -- you
13 all have them. They're all on the website. Russ and --
14 as our CFO, will take you through the financial part.
15 The auditor will take you through the auditing piece of
16 that. Scott will take you through the project aspect,
17 and John will take you through the risk management. And
18 as you listen to these presentations, what you will see
19 is how they all tie together from the perspective of
20 early warning, understanding what we're doing, and how
21 we're addressing issues, and I think it's really
22 important. There are a lot of reasons for doing audit,
23 but probably the only honest-to-God reason we're doing
24 audit is that regardless of what it is the project is
25 being done or the business is being run, we're all being

1 done and run by people. We all make mistakes. The
2 world changes. Things change, and the audit process,
3 early-warning mechanisms, are to ensure that we find
4 these as soon as possible so that we can address them as
5 soon as possible and minimize the risk to the overall
6 project.

7 With that, Mr. Chairman, I'm turning it over to,
8 Russ, our CFO.

9 CHAIRMAN RICHARD: Thank you very much,
10 Mr. Rossi, and just as we do, Mr. Rossi, my
11 understanding is that today, you're unveiling the
12 product of the committee's work to develop these
13 financial reporting systems but that you intend this to
14 be a regular update mechanism to the Board and public;
15 is that correct?

16 MR. ROSSI: Yes, in open session today and I
17 assume we'll continue to do that, and we will make this
18 presentation quarterly to the Board or more often, if
19 appropriate.

20 CHAIRMAN RICHARD: Thank you.

21 Good morning, Mr. Fong.

22 MR. FONG: Good morning, Mr. Chairman.

23 CHAIRMAN RICHARD: Ms. Schenk, if you could
24 hear me, we're picking up some noise, so maybe if it's
25 possible to mute your microphone, that would be great.

1 MS. SCHENK: I will do that.

2 MR. FONG: Good morning. Russ Fong. Chief
3 Financial Officer for the High-Speed Rail. Today, I'd
4 like to go over a few items. First, the Finance and
5 Audit Committee reports. You can take a look at the
6 handout, the PowerPoint in front of you. Also, talk
7 about a high-level overview of our CFO and the financial
8 office, walk through our financial reports, so audit
9 plan for fiscal year 13/14, a little update on our
10 Construction Package 1, project update, and a brief
11 overview of our risk assessment.

12 Let's start with a little bit of a background. I
13 joined the high-speed rail last spring. At that time,
14 we had nine staff, and that was in accounting,
15 procurements, budgets, and contracts. Department of
16 General Services was our financial services, and as of
17 last December, we transitioned that over to the
18 high-speed rail. Today, we have actually transitioned
19 all the function, and January was the first month we
20 actually produced all of our financials. We created a
21 new financial office going from nine staff to 36. We
22 currently have six vacancies. These are all -- these
23 vacancies are all newly created for this year. We
24 introduced midlevel managers, developed various policies
25 and procedures, and implemented some internal controls.

1 Some challenges that do lie ahead, the average
2 length of employment for our fiscal staff is nine
3 months. We will experience some growing pains.
4 January, as I said, was our first month we actually
5 produced our financial reports and financial
6 transactions. There's going to be a learning curve. We
7 have no financial system, and this is important because
8 we need the following: We do need a single source of
9 financial data, less reliance on manual and Excel
10 spreadsheets, ability to track the color of money. And
11 let me give you an example, here's a breakup of our
12 current Authority's appropriation. For Prop 1-A, we
13 have \$2.6 billion for construction, \$1.1 billion for our
14 budget system, \$477 million for planning, for a total of
15 \$4.2 billion. So take that over to the Federal funds,
16 we have our funds. F, 2.2 billion; FY10 funds is \$928
17 million, for a total of \$3.1 billion. We also have
18 local funds of \$52 million, some reimbursements, and
19 eventually, we'll have some private sector funding. We
20 need to track our age receivables. We need better
21 processes for projections and forecasts, more efficient
22 and effective reports, produce investment grade
23 reporting, and we need a financial system that, in my
24 opinion, this is a must have.

25 Let's take a look at Slide 2. Let's start with

1 an overview of my role as a CFO in a newly created
2 financial office. So what drives my team on a daily
3 basis? It's to ensure our financial integrity and
4 enhance our internal controls. So how do we accomplish
5 this? For the past few months, the financial office
6 staff has met with -- collaboratively, with our program
7 in administrative areas and we have defined and examined
8 that expanded functions and processes that will benefit
9 the Authority in the following ways: Created a higher
10 level of financial transparency, improving the precision
11 of our enterprise cash management process to ensure
12 financial stability, creating tiny and accurate monthly
13 reports to improve our internal and external financial
14 reporting, improved our reconciliation process and
15 expansion reporting to fully understand the cost of
16 doing business, and focus on developing better controls
17 and analysis on financial data on a monthly and
18 quarterly basis.

19 So let's take a look at my CFO agenda. There are
20 four key areas of focus that I have. Number one is
21 financial risk and compliance. The question that we
22 need to ask is, how are we going to look in the future.
23 Currently, as a government agency, we're under GASB,
24 which is the Government Accounting Standards Board, but
25 with investments in the private coming on down the line,

1 should we be FASB, which is our Financial Accounting
2 Standards Board. These are accounting standards that
3 are comparable to the private sector serving. Should
4 that play a role? Should we use some of their best
5 practices?

6 Number two is our core functions and back office.
7 Like I said earlier, we brought our financial services
8 inhouse, and effective January 1st, it's running fine.
9 We upgrade our accounting and contract procurement and
10 budget staff to 36. We developed and implemented
11 internal policies and procedures to enhance our internal
12 controls, and we implemented checks and balances to
13 ensure our financial integrity

14 Number three is growth and performance. We want
15 to track performance -- we want to develop advance
16 reports, excuse me, that will track performance, aid in
17 the decision-making process, increase transparency.
18 Finally, executive board and stakeholders, provide
19 financial information for transparency and oversight and
20 develop financial reports that allow the Board to uphold
21 their fiduciary responsibilities.

22 The Finance and Audit Committee is made up of
23 these four areas, financial reporting, audits, risk
24 updates, and project update. So let's take a look at
25 the first one, our summary of financial reporting. The

1 key focuses on these areas here, the summary of
2 financials, invoice payments, administrative budget,
3 capital outlay budget, total expenditures and forecast,
4 contract procurements, and projects and initiatives.
5 Listed below each account category is the corresponding
6 reports.

7 Let's take a look at each report. That's Slide
8 6. At this point, it might be good to turn to your
9 handout of the actual financial reports. It might be a
10 little easier to follow. The first report is a summary
11 highlighting three critical areas. If you only want to
12 read one of the reports, this is the report to read. It
13 captures the invoice payments on the top two charts, the
14 State administrative budgets, the top middle chart, and
15 finally below, the capital outlay budget. This report
16 is designed to give the reader a high-level snapshot of
17 three critical areas. The details will be in the actual
18 reports to follow.

19 Let's take a look at each chart as we go forward.
20 In the first two, invoice payments, this is one of our
21 priorities to make sure we're paying our invoices in a
22 timely manner. This chart, right here, reflects both
23 month-to-month comparison. This particular report in
24 front of you is comparing our January reporting numbers
25 versus our February numbers. The pie chart on the

1 right, reflects the actual percentage breakdown of each
2 age receivable.

3 The middle two charts is our administrative
4 budget. The left side compares our expenditures with
5 budget by functions. Functions are the administration,
6 executive office, external affairs, financial office
7 legal, and program management. The red bar represents
8 unity and expenditures and compared to the blue lines,
9 which represent year-to-date budget. The bar chart on
10 the right compares expenditures versus budget by the
11 program. Administration is Program 10. Program
12 management oversight is Program 20. Public information
13 communication is Program 30, and fiscal and other
14 internal controls contracts is Program 40. This
15 particular report ends on December 31st, which
16 represents 50 percent of the budget year. We compared
17 these expenditure percentages by this 5th percent.

18 Finally, on the bottom two charts is our capital
19 outlay chart. This highlights the 13/14 capital outlay
20 budget. The bar chart on the left displays the outlay
21 budget for planning both in Federal and Prop 1-A funds.
22 The bar chart on the right expresses our instruction
23 both in Federal and Prop 1-A bonds.

24 I'll ask the Board to turn over to your reports,
25 the account ageable reports, it's easier to see. This

1 report tracks all age receivables over 45 days, and sets
2 them in categories of 1 to 30 days, 31 to 60, 61 to 90,
3 91 to 20, 21 to one year, and greater than one year.
4 Vendors on this report are listed in the following
5 categories: Regional consultants from project teams,
6 construction and right of way, third-party resource
7 agencies, and administration and support. The top
8 section reflects the balance over 45 days. The bottom
9 section reflects our age balance once the Federal
10 Railroad Administration, FRA, approves all pending
11 drawdown requests.

12 Relatively high January age balances was due to
13 the following: If you remember, back in December, we
14 had the Federal shutdown for two and a half weeks.
15 Right after the Feds came back, there was the Federal
16 system for download went down for maintenance for two
17 weeks, and then, again, we had our DGS transition from
18 DGS to bringing our functions inhouse.

19 Slide 11, cash management report. The top
20 portion reflects our cash end. So this is current
21 balances plus any anticipated cash deposits. Cash out,
22 there are items that we anticipate paying with Prop 1-A
23 funds within the next 90 days. So this is our priority
24 list of items that we require that require Prop 1-A cash
25 for payment. The cash in, bottom section, is our future

1 deposits pending FRA approval and our DGS reconciliation
2 as we close the year.

3 Moving on to the summary of monthly budget
4 expenditure report on Slide 12. This report measures
5 the program's year-to-date expenditures with this
6 budget. This report becomes more meaningful in the
7 third and fourth quarter towards the end of the year.
8 Our expenditures, as you can see in this report, is 27
9 percent at the 50 percent mark of the year. We spent 7
10 million for a total of \$26 million budget so far.
11 Program 20 reflects management -- or the program
12 management oversight reflects a hundred percent. Program
13 management oversight function was brought inhouse this
14 year. Part of the State staff is taken -- part of
15 the -- a hundred and six positions we receive this year
16 are State staff and will oversee the project oversights
17 which is why the budget is relatively small. It's
18 somewhat typical for a State agency to have a low
19 percentage in the beginning of the budget year.

20 Slide 13 is our executive budget summary. This
21 report reflects three parts. Part one, phases one
22 through seven, gives a high-level view of our
23 year-to-date expenditures versus budget by functional
24 area. On page one, you'll see from left to right,
25 categories total budget, prior month expenditures,

1 year-to-date expenditures, total remaining budget,
2 year-to-date percentage of budget expenditures, the
3 forecast, and our year-to-date expenditures plus our
4 forecast. The forecast today spending about \$23 million
5 of our \$26 million dollar budget or 87 percent. Our
6 forecast of spending is less due to salary savings.
7 With our early hiring challenges, we have not spent our
8 entire salary savings budget. The good news going
9 forward is we have mitigated those to these hiring
10 challenges. Hiring exams have been completed. We are
11 transitioning our HR functions from DGS to Caltrans,
12 which has a strong understanding of our HR needs. We
13 currently filled 50 positions. An additional 11
14 positions have hiring dates, and 17 more positions are
15 projected to be filled in the next few months. This
16 gives us a total of 75 of the 106.5 newly established
17 positions for fiscal year 13/14.

18 Moving on to Slide 14, this is part two of the
19 executive budget summary, and that's represented on page
20 8 through 14. This displays our expenditures versus
21 budget by line item and function. This section of the
22 report goes into more detail. It's important to note
23 that this is our first year we divided up our budget
24 into this format. Once we have some historical data,
25 we'll be more precise next year with our budget in each

1 line item. Again, we have spent 27 percent of our
2 budget at the 50 percent line.

3 Part three, pages 15 through 21, of our executive
4 budget summary. This section displays our
5 administrative budget by positions and functions. The
6 categories from left to right are total positions
7 authorized, our budget at dollars, total vacant
8 positions, our vacancy rate, and year-to-date
9 expenditures.

10 Moving on to our capital outlay budget summary.
11 First, I want to say, originally, on Monday, the wrong
12 version of this report was put on our website. I do
13 apologize for that. The version that you have today in
14 front of you on the desk and the public's version and
15 the version on our website is current. I do apologize
16 for that mishap. This report is consistent with our
17 funding contribution plan with the FRA. Let's take a
18 look at page one. It highlights our capital outlay
19 budget by current year 13/14 on the top half of the
20 page, and on the bottom half would be the program
21 to-date. It's broken out by the following: Planning,
22 which is on page two, which was established in 2006,
23 includes bond funding Prop 1-A, Federal trust fund, our
24 funds only. Construction established in July 1st of
25 2012 and this includes prop -- this includes bond funds

1 Prop 1-A and also Federal trust funds RA FY10 funds.
2 Pages 2 through 5 are broken out in sections. Each
3 section has a separate environmental clearance. Page 6
4 details the Prop 1-A bond funds, and the following page
5 7 details the Federal trust funds including RA and FY10.

6 Slide 17 is our total project expenditures with
7 the forecasts. As you can see, the top category lists
8 all the project management team costs and the regional
9 consultant costs for the fiscal year. We include
10 forecasts in italics in the right columns. The second
11 category lists our administrative expenses by fiscal
12 year. The bottom green line highlights our total
13 expenditures by fiscal year. At the end of 2013, we
14 spent \$450 million in State funds, \$176 million in
15 Federal funds, for a total of \$626 million. The
16 Authority started spending State resources back in 1996
17 through the Public Transportation Act, our account,
18 excuse me, and various other state resources. In 2009,
19 we started selling Prop 1-A bonds. In 2010, we received
20 Federal funds, and as of December 31st, 2013, we have
21 spent \$176 million dollars. Of the \$450 million in
22 State funds, \$95 million has been used as an eligible
23 Federal grant match.

24 Moving on to Slide 18, which is our contracts and
25 expenditures report. This report lists all active

1 contracts and procurements in alphabetical order. The
2 green font representing changes from the previous
3 months' report. If we start from the far left column,
4 it lists the vendors contractor name, small business
5 percentage, if any, the contract name, the encumbered
6 amount year-to-day, actual expenditures, the balance,
7 which is the contract amount minus the actual
8 expenditures and description of the service. The very
9 bottom of the report lists all the totals. Resolution
10 1214, approved in September 2012, gave the CEO certain
11 procurement authority but stipulated that a list of all
12 new and amended Authority contracts with a value of
13 10,000 or more be periodically presented to the Board by
14 Authority staff. Going forward, the contract and
15 expense report will satisfy this requirement.

16 On slide 19 is our projects and initiatives
17 report. This report highlights some important projects
18 and initiatives going on within the organization. Once
19 a project or initiative is completed, it will show as
20 completed for one month and then deleted from this
21 report.

22 How to read this report. The name of the project
23 initiative is on the left-hand side. The vision owner,
24 upcoming milestones, the start date, end date, time line
25 rating and trend, and budget rating and trend. The time

1 line of budget will have the following rating: Green
2 for satisfactory, meaning no corrective action; yellow
3 for caution, need corrective action soon; and red for
4 escalate, immediate corrective action required. The
5 time line and budget will also have a trend. Sideways
6 arrows mean no change from last month's report. Upward
7 arrow means an increase. A downward arrow means a
8 decrease. We should focus on the project's initiatives
9 that are red and those that are yellow with an upward
10 trend.

11 Let's focus on two projects on this report, one
12 with the rating of red and one with a rating of yellow
13 but with an upward trend. The red, the financial
14 system, as I said here earlier, we need to obtain
15 approval from the California Technology Agency and the
16 Department of Finance, the fiscal units. There's been a
17 delay in the procurement and implementation in the
18 financial system due to the development and submittal of
19 the feasibility study report required by the control
20 agencies. We are trying to mitigate this issue by
21 putting more staff on to trying to create this report so
22 that we can get back on schedule.

23 Another project that's yellow that's training up
24 is our hiring staff for fiscal years 13 and 14. The
25 recruitment plan has been placed in to fill these vacant

1 positions. To date, we have 50 of the 106 positions
2 authorized to have them filled and, again, 11 pending
3 start -- or have start dates. The Authority has
4 received an increase of 106.5 positions this year,
5 increasing our total number of authorized positions from
6 68.5 to 175. The effective dates were staggered ranging
7 from August of the 2013 through January of 2014. The
8 Authority has been undergoing a diligent recruitment
9 plan in order to fill the majority of these positions
10 before the end of the current fiscal year. A
11 significant challenge to filling these vacancies was due
12 to classification requirements, the developing of
13 examinations because there was no prior existing
14 examination available for the Authority's use. The
15 examination development process typically takes about
16 four months and requires a time commitment from subject
17 matter experts, from the Authority, and other
18 departments and -- who have staff that are available to
19 assist. The Authority's in the process of transitioning
20 the HR personnel services contract from DGS to Caltrans.
21 This will streamline the DGS statement approval process
22 given that many of these classifications are utilized
23 and exist at Caltrans. This will apply to any positions
24 that are authorized in future fiscal years.

25 At this time, I'd like to turn it over to Paula

1 Revera, our chief auditor. Thank you.

2 CHAIRMAN RICHARD: Thank you, Mr. Fong.

3 MS. REVERA: Hi, I'm Paula Revera. I'm with
4 Internal Audits for the Authority, and as of this time
5 last week, I was the only auditor, but we are also
6 diligent in working on hiring, and we will have four
7 staff by the end of next month.

8 The audit office is an inspection function within
9 the Authority. We report functionally to the Board. We
10 provide independent evaluation and consultation
11 services, which are apart from those audits that are
12 done by external audit agencies or other control
13 agencies.

14 I wanted to talk a little bit about how we
15 develop the audit plan. The first thing we do is we
16 solicit audit topics from executive management. We look
17 at issues that have been identified in our prior
18 internal audits or audits performed by external
19 agencies, and then there's an internal risk assessment
20 that's performed every two years. It's called FISMA,
21 the Financial Integrity State Manager Accountability
22 Act, that I'll get to a little bit later when we get to
23 the audit plan, but it is a risk assessment that's done
24 by management. So we look at those topics. We, kind
25 of, give them a preliminary audit scope and identify

1 what the resources could be to perform those projects.
2 Then we put them into a priority, those that are
3 required by law, if we have any specific requests by the
4 CEO or by the Board, and then the remaining topics, we
5 assess the relative risks to the Authority.

6 Okay. Slide 23. I'll get into a little bit of
7 our audit plan. The first item that's listed on the
8 audit plan is the small business, disadvantaged business
9 reporting program. This assignment is currently in
10 progress. The scope was to evaluate the small business,
11 disadvantaged business enterprise reporting and to test
12 the accuracy of the data reported as we make our
13 progress toward the 30 percent goal that was
14 established. Our focus was on the small business
15 program processes. We identified what the Authority is
16 doing to attain a small business goals, and we looked at
17 the small business program guidelines.

18 The next item on the audit plan is compliance
19 with the Public Records Act. I know the audit says it's
20 on hold, but please don't think the compliance is on
21 hold. It's just our audit of the process. This -- what
22 it will be is review to evaluate the process and
23 responding to Public Records Act requests, which we call
24 PRA. We'll determine whether the Authority complies
25 with PRA response requirements and levies appropriate

1 fees for the requests. It's on hold as we finalize some
2 of our policies and processes primarily related to the
3 levy of fees for reimbursement.

4 The next item on the audit plan is draft
5 agreement review. That's something that's an ongoing
6 activity in the audit office. The scope of those is to
7 review draft contracts before their executed for the
8 applicable fiscal provisions. And those, we look at
9 method of payment to see if it's actual cost, firm fixed
10 price, specified hourly rates, task orders. Then we
11 look at whether or not there's an adequate retention
12 policy and whether it complies with the Federal
13 guidelines, complies with our grants. We look to see
14 that the contract conclude a right to audit for Federal
15 Funding Authorities, the Bureau of State Audits, as well
16 as the Authority. We look to see that there's a
17 determination for convenience clause, as required by the
18 Federal requirements. We look to see that the
19 appropriate cost principles, the Federal cost
20 principles, are included in the agreements. We look to
21 see that there is a defined term of the agreements, not
22 necessarily start date and end date but a state date and
23 possibly a three-year period or a number of days but
24 from a notice to proceed. If there's any equipment
25 that's included in the contract, we look to see that

1 they're the applicable equipment provisions. How you
2 track it, how you tag it, what happens with your
3 reporting, what happens at the end of the contract,
4 those sort of things. And then the last provision that
5 the audit office looks at is that there's a
6 subcontracting provision, and that the provisions that
7 are relative to subcontracts have a requirement that
8 they'll be in all the subcontracts. Then we read the
9 scope to see if it's an auditable scope, looking to see
10 when we come back in a few years, will we be able to see
11 defined deliverables and defined due dates and be sure
12 that they're actually complied with. And then the last
13 thing I do for this type of assignment is I look at the
14 cost proposal, and I compare it to the method of
15 payment. If it's a natural cost contract, I look to see
16 that there's actual costs in the cost proposal and that
17 the costs appear reasonable for this type of work that's
18 being proposed.

19 The next assignment on the audit plan is what we
20 call pre-negotiation reviews. When -- for architectural
21 and engineering contacts, when there is a request for
22 proposal where quality is the primary driver as opposed
23 to cost, those cost proposals come to the audit office
24 and we take a look at -- well, the cost proposal
25 primarily. We read the contract for those provisions I

1 discussed a moment ago, but we look at the cost proposal
2 and we compare the pay rates to actual payroll data. We
3 look at the overhead that is proposed and compare that
4 to the most recent overhead schedule, and then we're
5 looking at any to other direct costs that have been
6 proposed, travel is in accordance with State travel
7 guidelines, those sort of other direct costs. We look
8 to see that there's a basis for the estimate and that
9 they'll only be reimbursed for actual costs incurred.
10 The current workload for that is -- there were three
11 regional consultant contracts that we have performed
12 these reviews for. We have an additional five right of
13 way and surveying contracts that are in process right
14 now, and there will be additional pre-negotiation review
15 in the spring for the project and construction
16 management contracts.

17 The next item on my audit plan is FISMA, and
18 that's the Financial Integrity State Managers
19 Accountability Act, and it's Government code 13400. And
20 it requires a report every other --

21 TELECONFERENCE AUTOMATED MANAGER: Pardon.
22 Interrupt. You're conference contains less than three
23 participants at this time. If you would like to
24 continue, press star one now or the conference will be
25 terminated.

1 CHAIRMAN RICHARD: Can we do that, please.

2 I'm sorry, Ms. Revera.

3 Okay.

4 MS. REVERA: Okay. What is required is
5 every other year, the head of each agency reports on the
6 internal control -- administrative and accounting
7 internal controls of the -- and --

8 TELECONFERENCE AUTOMATED MANAGER: Pardon.
9 Interrupt. Your conference contains less than three
10 participants at this time. If you would like to
11 continue press star one now or the conference will be
12 terminated.

13 MS. REVERA: Okay. So the Department of
14 Finance has issued some guidelines on how entities are
15 to comply with FISMA, and management is to do an
16 internal risk assessment. They're to look at the
17 administrative and accounting risks of the entity.
18 My -- well, our role as the audit office, but my role,
19 in particular, this year was to facilitate that process,
20 to introduce the FISMA to management. We requested that
21 management identify risks. We met with them
22 individually to refine those. Sometimes, we had a list
23 of topics, and we had some additional detail. We took
24 those risks that were identified by executive management
25 and categorized them. We went back to management, and

1 management ranked the risks for impact and probability.
2 For those risks that were high impact, high probability,
3 the audit office documented the controls that we have in
4 place and documented the corrective action plan that the
5 Authority has developed in order to mitigate those risks
6 going forward.

7 The next audit on the audit plan is grant
8 management. As Russell mentioned, we have four
9 different Federal grants, and so this audit will be to
10 assess the Authority's compliance with the grant
11 provisions. We want to be sure that nothing is -- if --
12 that it's not duplicated or lost. So we're going to
13 look at the overall grant provisions, identify what's
14 required, who's responsible, and document that it's
15 being performed.

16 So those six assignments are what we expect to be
17 able to do this fiscal year with our current staff.
18 Should we be able to staff up, we'll move onto this,
19 this -- the, kind of, second half of the audit plan.
20 This progress report audit is the one that was requested
21 by the Board when Bureau of State Audits report came out
22 in 2012. It's to test the compliance of the progress
23 reports and invoices with the annual work program for
24 the regional consultant contracts and the project
25 management team. We're going to evaluate the percentage

1 of completion of the task in comparison to the amount
2 that's been invoiced. All of the primes are going to be
3 reviewed, and we're going to look at two progress
4 reports for each prime, each year. However, I'd like to
5 note that this assignment is on hold, because as the
6 project management oversight has been migrated to the
7 Authority and we have State staff fulfilling this, the
8 process has changed a little bit. We don't want to go
9 into an old process and say what's wrong with something
10 that's no longer in place. So this is on hold. We hope
11 the process will be implemented in March of this year,
12 so next month.

13 The next category of audits that we could perform
14 will be construction related audits. These will be
15 times to coincide with construction activities. The
16 types of things we could look at are incurred costs
17 audits, looking at costs that can be reimbursed by the
18 Authority as well as the internal controls related to
19 the incurred cost process, charging practices, invoicing
20 processes, those sort of things. Those audits would be
21 to assure that only federally eligible costs are
22 reimbursed by the FRA. We could also take a look at
23 change orders, verify the accuracy of the costs in those
24 negotiated contract changes, as well as the application
25 of overhead and adherence to the process. Another type

1 of audit we could do is the invoicing process. There's
2 a very short time frame, 45 days, to comply with the
3 Prompt Payment Act. And so we could go in and verify
4 that the invoices process is adhering to the established
5 process from the time the invoice is received all the
6 way through FRA reimbursement.

7 Another type of audit that will -- we can do is
8 post-contract audits or incurred costs audits. It
9 doesn't have to be completely when the contract is over.
10 We would look at reasonableness and allow-ability of the
11 costs to reimburse under the contract. We would assess
12 the effectiveness and the efficiency of those contacted
13 resources. The procedures that we would perform would
14 include interviews of the Authority and consultant
15 staff, of course, obtaining technical expertise is
16 necessary, because I'm not an engineer nor do I plan to
17 be. We would look -- we would perform an analysis of
18 the value received for the work that was performed and
19 take a look at the reasonableness and the allowability
20 of the reimbursed costs. As there are a number of
21 contracts, you can see by Russ's list, the contracts
22 would be selected based on risk factors. The risk
23 factors would be dollar value, the number of contracts
24 for a particular firm, and any management requests.

25 Another ongoing workload is audit liaison. As

1 external entities come to audit the Authority, Federal
2 Railroad, Bureau of State Audits, GAO, our office
3 provides a liaison to those auditors. We put the
4 people -- the auditors in contact with the right people
5 in the Authority. We are in the loop with all the
6 requests, so we know what's been requested, and we look
7 to see that those requests are being fulfilled in a
8 timely manner. And we also take a look at the responses
9 that have been provided, and if there's a narrow
10 response that doesn't completely answer the auditor's
11 question, we'll direct the auditors to a different
12 personnel or a greater perspective so that they can be
13 efficient in their audits of the Authority. And
14 currently, we have one audit in progress, the Bureau of
15 State Audits, and their performing the Federal
16 compliance portion of the single audit, which most
17 likely is an annual event.

18 The next type of audit we'll perform, and this is
19 a general category, effectiveness and efficiency of
20 performance reviews. These will be determined based on
21 FISMA. So we look at the risk assessment. We look at
22 the types of things that were identified, and then we
23 look to see where we could perform an audit to assist
24 with the effectiveness and efficiency. This will be
25 very important as we're creating new processes as we get

1 into construction package one and construction packages
2 two, three. These are new processes, and that's where,
3 generally, there's a lot of risk.

4 The last item on the audit plan is a year end
5 close review. We're going to look at the year end close
6 processes and -- to determine that those processes were
7 adequate to show there were no material misstatements.
8 DGS, Department of General Services, was our contracted
9 accountant up through the end of last -- well, through
10 December but for last fiscal year. So we'd like to take
11 a look to see that those -- their year end close process
12 was adequate.

13 That's all I have. I'd like to introduce Scott
14 Jarvis, program manager.

15 CHAIRMAN RICHARD: Thank you, Paula.

16 MR. JARVIS: Good morning, Mr. Chairman and
17 Board members. My name is Scott Jarvis. I'm assistant
18 chief program manager, and I'd like to briefly introduce
19 the monthly status report that we have for construction
20 package one, CP1. It is a high level summary report
21 that provides the overall status of CP1, and the
22 prosecution of the project is in the early stages, and
23 so the report reflects that information. The report will
24 continue to be used to communicate the status of the
25 project as we move forward, and to just give you a

1 little bit of idea of the report -- and it's in the
2 packages, it includes a status of ten of CP1 -- the
3 management team, scheduled milestones, contract time,
4 financial, change orders, time and dollars expended as a
5 percentage of the original budget, time and dollar
6 growth as a percentage over the original budget, major
7 schedule activities over the next six months, key
8 topics, and key work accomplished during the reporting
9 period.

10 So now I'll go ahead and touch on a few of those
11 status reporting areas.

12 Schedule. No time extensions have been approved
13 to date, and the contractor's scheduled to finish with
14 the number of contract working days, which places the
15 completion of the project on or before January 31st,
16 2018. Financial. Three invoices have been approved,
17 totaling \$38.6 million. Change orders. Five change
18 orders are pending. To date, no deductions have been
19 made from the original contingency. Time and dollars
20 expended. 6.2 percent of contract time has been
21 expended with 3.8 percent of the work performed, and
22 these figures are consistent with a large design build
23 project in its early stages. Time and cost growth. No
24 time growth has occurred from the number of original
25 contract workdays, and no cost growth has occurred to

1 the original contract allotment. Major scheduled
2 activities during the next six months. Obtaining
3 permits, construction demolition, finalizing parts of
4 the baseline design report, engineering the fieldwork
5 for utility relocation and design engineering up to 60
6 percent on some of the project's structures. Key
7 topics. Right of way acquisition and approval of third
8 party agreements continue to be critical activities that
9 the Authority is focusing on. And key field work
10 accomplished. For the period through January 20th,
11 2014, the contractor performed geotechnical drilling and
12 testing, and this work continues.

13 Now, I'd like to go ahead and introduce the
14 Authority's risk management, John Tapping.

15 CHAIRMAN RICHARD: Thank you, Mr. Jarvis.

16 MR. TAPPING: Good morning, Chairman
17 Richard, fellow Board members. It's my pleasure to be
18 here before you today to talk about my favorite subject,
19 risk management. My name is John Tapping. I'm the risk
20 manager for the Authority, and my role on the Finance
21 and Audit Committee is basically to report trending
22 information on risks program wide to the Finance and
23 Audit committee.

24 It's been a really exciting year with respect to
25 risk management implementation. I think, if you read

1 the draft business plan, you can see the independent
2 infusing of risk management processes into some of the
3 highly technical modeling that's been done. Our team
4 has looked at the ridership revenue, operating and
5 maintenance as well as life cycle models and applied a
6 quantitative risk approach to it, in essence, apply
7 Monte Carlo simulations looking at a possible range of
8 outcomes, and so we have really, in essence, come in as
9 an independent review using mismanagement techniques to
10 validate the assumptions and the modeling that's been
11 done on the earlier models. So it's been really
12 exciting to see risk management integrated into the
13 program, as a whole, and I want to thank the Board and
14 the Finance and Audit Committee actually for being a
15 champion for risk management techniques and bringing
16 that in. So that was a great accomplishment.

17 The other accomplishment, I believe, when --
18 earlier, as I started was -- I wanted to implement a
19 strategy of a risk informed contingency approach and
20 putting into our program and our contracts. And so one
21 of the things that I report to the Finance and Audit
22 Committee is the trending information associated with
23 contingencies that have been approved by the Board. So
24 today, I just wanted to run through briefly some primary
25 risk drivers on the CP1 contract to kind of piggyback on

1 what Scott presents as the status. Then I go further
2 and I talk about some of the risk drivers and the
3 trending of the risks as we go through it. Mr. Rossi
4 spoke about the migration of risk, and it's very
5 important to realize that you don't just look at risk
6 once in a project. It's continuous. We update our risk
7 registers on a monthly basis, and we do the quantitative
8 approach as necessary to develop these trends. And so
9 what we did early on was do a risk informed approach in
10 looking at the contingency that was proven for the CP1
11 contract, and we came before you earlier and you
12 approved that contingency. And so we really have a
13 baseline contingency. We've identified risk and
14 uncertainties that the modeling actually resulted in
15 that recommendation, so we compare as we go forward, as
16 the risk migrate, so to speak, or we implement risk
17 responses, we can update that modeling. And so what we
18 will be doing in the next -- in the next several months
19 is updating the quantitative approach, and from there,
20 we can do a confidence level in meeting our contingency
21 and how it's trending and our contingency is trending.
22 We can also look at how our risk responses have affected
23 our contingency or reduced our risk.

24 So I'm going to talk just briefly about five risk
25 drivers that we identified early. Again, they were

1 assessed for uncertainty. There were cost risks and
2 were -- the basis for the, the risk informed contingency
3 that was approved on the CP1 contract. The first -- the
4 first risk driver, the primary risk driver -- again,
5 there are dozens of risks in our risk register that went
6 into the modeling, but we found that these were the
7 primary drivers that drove the contingency
8 recommendation.

9 Right of the way acquisition. Again, there
10 continues to be a very aggressive right of way schedule
11 in our contract, and there is some pressure to that
12 schedule. We have taken a number of risk mitigations in
13 that approach. We have identified critical path parcels
14 so we don't -- so we have a systematic disciplined
15 approach to procuring the right of way. We have added
16 augmented staff and a litany of the other risk responses
17 to address that. The trend information as compared to
18 our baseline on the CP1 baseline is unchanged at this
19 point in time. In March, we anticipate incorporating
20 actual parcel acquisition with the contractors, the
21 design builder's schedule, and from there, we can do a
22 quantitative approach and update, you know, basically
23 measure how we're doing to gauge the trend analysis for
24 that particular risk.

25 Our second risk driver was having to do with

1 relocation of utilities. There is some new requirements
2 requiring a buyer Buy America on certain utilities of
3 relocation, and the market and the materials market.
4 There was a ramp up period that's going to be necessary.
5 So, so there's some uncertainty there, as far as the
6 processing going forward. We have aggressively been
7 working together with the utility companies, with FRA,
8 and PG&E and AT&T and the design builder to advance the
9 engineering, which will determine the relocation
10 requirements and materials list. So it's anticipated in
11 June of 2004 that we'll have a better handle on the
12 sensitivity of the schedule impacts that may be related
13 to that process in obtaining Buy America approval for
14 the materials and the procurement.

15 The third primary risk driver is -- really has a
16 number of issues, sub risk drivers, and that's the
17 adjacency of the railroads and working with the
18 railroads and the railroad agreements that are underway.
19 We have several agreements in place. There are still
20 some agreements pending. Some of the uncertainty
21 involved in this process involves the review process by
22 the railroad agencies and the period of time they would
23 like in the review processes. And so we're, we're
24 meeting with the railroads in a partnering manner to, to
25 come to some agreement on V times that we can quantify

1 it to a larger extent.

2 A secondary subcategory with that is potential
3 additional intrusion protection between the two
4 facilities. At this point, the parties are discussing
5 design guidelines. There's a difference of opinion
6 regarding the design guidelines, and we're working
7 through that but that has some, again, that was
8 identified early. It's -- we have someone out on that
9 contingency to cover that, and I believe they're working
10 towards a mutual, agreeable resolution, and, again, the
11 trending on that one is no change at this point. Once
12 the preferred design criteria is received from UPRR in
13 the next few months, we anticipate being able to
14 quantify that in a lot greater detail, and, again, we
15 can run the Monte Carlo and get some better trending on
16 that.

17 Another subcategory of railroad risk is --
18 there's a spur and the, the -- associated with the San
19 Joaquin Valley railroad and operations surrounding it
20 and the interface with our design build contractor.
21 Again, identified early, agreements were not in place,
22 so we included some contingency uncertainty in our
23 earlier assessments. Since that time, we have met with
24 the design builder, we have met with the railroad, and
25 we have managed to get a lot greater detail on the

1 amount of time and effect that the, the two operations
2 may impact each other. And so I would say that that
3 risk is trending positive. It's actually -- we'll be
4 able to quantify it in April, but that one is trending
5 positive.

6 The last two I'll group together, there's
7 subsurface conditions, one, and, two, hazardous waste.
8 Again, there's contingency in there from uncertainty,
9 because as going in with a design build contractor,
10 there's a number of borings that the contract has done,
11 but there will be a lot more as we go forward, and we'll
12 have to reassess that upon borings. I should note,
13 however, that the design builder is well underway in his
14 boring program and work has started. 83 of 460 borings
15 have been completed. That's approximately 20 percent,
16 and there's no indication yet of differing site
17 conditions. However, it's still early, and we still --
18 at this point, I would recommend no change to that trend
19 as we earlier identified. I would say in the middle of
20 June, we should have a real better feel for potential
21 differing site conditions. That is a contractual
22 requirement that a geotechnical design baseline report
23 be prepared by the design builder and that will give us
24 a better indication we'll be able to quantify.

25 So with that, I'll summarize by saying that it's

1 really exciting to follow all of this stuff through and
2 be able to -- I think these are really, as Mike Rossi
3 said, these are early -- I won't say 'early warnings,'
4 but they're triggers that could identify an early
5 warning. As long as we continue to manage them both
6 qualitatively, as I have are here today, and
7 quantitatively, as we will in the next few months, we'll
8 be able to manage those and move forward, so thank you
9 for that.

10 CHAIRMAN RICHARD: Thank you, Mr. Tapping,
11 and just to clarify, those five that you went through
12 were just illustrative of the risks from the risk
13 register that you're on top of. I don't want people to
14 think that somehow those were the totality of the -- of
15 the risks that the project is facing at this point.

16 MR. TAPPING: The brief answer is yes. The
17 one other sentence answer is yeah, we have hundreds of
18 risks in our risk register. What we do is we run them
19 all through a Monte Carlo analysis, and then we come up
20 with a sensitivity analysis that shows you the most
21 critical risk, and those six primary risk drivers are
22 pretty much drive at this point in the contingency, and
23 to this date, we have not identified any other risks
24 that rise to that level, and certainly, if they do,
25 we'll deal with it in the Finance and Audit Committee

1 before this Board.

2 CHAIRMAN RICHARD: Thank you.

3 MR. ROSSI: That's it, Mr. Chairman.

4 CHAIRMAN RICHARD: So that completes the
5 presentations.

6 Ms. Perez-Estolano.

7 MS. PEREZ-ESTOLANO: I just have one quick
8 question to Russ.

9 MR. FONG: Yes.

10 MS. PEREZ-ESTOLANO: Thank you. I just want
11 a little bit of, maybe, explanation or update really on
12 where we are with paying out, you know -- I'll try and
13 find it. It's the -- I found it difficult to follow on
14 the PowerPoint just because my eye sight isn't as good
15 as Mike Rossi's but -- he was saying, "Why are you
16 having a problem?" But essentially, it's on the -- the
17 one where we --

18 CHAIRMAN RICHARD: Are you talking about the
19 payables?

20 MS. PEREZ-ESTOLANO: Yes.

21 CHAIRMAN RICHARD: I think that's right at
22 the beginning.

23 MS. PEREZ-ESTOLANO: So, Russ, if you can
24 help us understand how we're clearing out those account
25 payables, that would be great, particularly for small

1 businesses, who I know have 120-day payable rate or even
2 longer -- yeah, that one.

3 MR. FONG: Yeah, this is probably our most
4 sensitive reports. This is our age payable report, and
5 what this tracks, again, are any invoices that are over
6 45 days. So, again, 1 through 30 is 46 days-plus. What
7 you're looking at on top is a rollout of how many
8 receivables are aged by those categories, and if you
9 look at the total, it's about \$47 million on the top
10 part. Some of the challenges we face, as I mentioned
11 earlier on some other issues, are in January, we had the
12 Federal shutdown, which means we could not submit any
13 requests for drawdowns. Right after they came back, I
14 think about a week later, Delphi, which is their Federal
15 drawdown system, went down for two weeks for
16 maintenance. On top of that, in December, we
17 transitioned from DGS to high-speed rail, all our
18 financial functions. So there was about a three and a
19 half week delay. In other words, we couldn't submit any
20 invoice because DGS had to close the year out. So those
21 are some of the administrative occurrences that got the
22 balance up to about 47. It was actually a lot higher.
23 We have drawn that down, but what I would really like to
24 point out is the bottom section of the report, and what
25 the bottom section reports, at that time, it looks like

1 it's about \$42 million. As of yesterday, we currently
2 have \$63 million pending FRA approval, and what that
3 means is that if FRA were to approve all our requests
4 tomorrow, we would begin the process of transferring the
5 funds through to the State Controller's office and
6 paying checks, which would get our balance to the bottom
7 right-hand corner. I believe it's about \$4.7 million.
8 Part of the \$4.7 million, I believe it's about 3
9 million, is also being disputed. So it's really, really
10 what I consider a low amount, but in all fairness, we
11 have had some challenges over the last six months.
12 There was a process, because we used to pay our bills
13 with Prop 1-A bond fund cash first. Last year, we
14 worked with the FRA and went with what we call a tapered
15 match. In other words, we're using Federal funds first
16 and then at a later date, we'll reimburse with cash from
17 the state side at a later date.

18 The process works, and the funding is good. FRA
19 has really stepped up to the plate. The problem is it
20 takes about thirty days, forty days, fifty days to
21 actually get those drawdowns approved. So that slows up
22 the process a little bit. Again, I think we're catching
23 up. If the FRA does approve this last drawdown request
24 of about \$63 million, you'll see it will be pretty much
25 caught up. So I feel good going forward, but we have

1 had some challenges over the last six months.

2 MS. PEREZ-ESTOLANO: I have heard as much
3 from small business. So that's the reason I want to
4 bring it up. I want to be a good company to work with.
5 I want our organization to be an entity that, you know,
6 small businesses say, "yeah, that's a good company to
7 work with." So I'm just sensitive to that. I know
8 you're working really hard to, kind of, zero out those
9 outstanding payments.

10 MR. FONG: It is our top priority.

11 MS. PEREZ-ESTOLANO: Thank you.

12 CHAIRMAN RICHARD: Mr. Umberg.

13 MR. UMBERG: This seems to be a chronic
14 problem. We have heard this for three years, long
15 before your tenure here. Maybe we adopted a policy, I
16 don't recall, with respect to payment, and if we
17 haven't, we should. I realize that whatever policy we
18 might enact is contingent upon, for example, the FRA or
19 others, approving the expenditure of funds, but to carry
20 on with Ms. Perez-Estolano's comments, this -- our
21 failure to pay or our delay in paying precludes small
22 businesses from really participating. If you're a small
23 business and you have got a payroll and we're 121 days
24 or worse than that, almost 336 days in some cases,
25 you're out of business. So as a suggestion, to the

1 extent that we can research and enact a policy with
2 respect to payment -- I understand Caltrans has some
3 such thing -- I suggest that we look into that.

4 CHAIRMAN RICHARD: Yeah. I'm looking for
5 Mr. Morales, who I think has stepped down already. He's
6 on deck for the next presentation, but I think that is
7 something that we should explore, and I would just add
8 that as a person who was a coowner of a small business
9 for 15 years who remembers many nights lying in bed at
10 night wondering how the hell we're going to keep things
11 going and floating our own checks to the owners so that
12 we can keep paying our employees, I'm particularly
13 sensitive to what this means for small business.

14 So, you know, I don't know, Jeff, if you want to
15 address this now or if you want to just get back to us
16 with some thoughts on Mr. Umberg's suggestion.

17 MS. PEREZ-ESTOLANO: Jeff, do you mind? If
18 we could just address this, because it is a real issue
19 and if we could just, kind of, put that out there for
20 just an update, because I know small businesses that at
21 least find credit and have tried to hold over until they
22 get payment. So I just want to make sure that we're
23 doing as much as we can, and it sounds like we are. So
24 maybe, Dan, if that's something like looking into
25 Caltran options if there's something --

1 CHAIRMAN RICHARD: Reporting back to us on
2 that.

3 MR. MORALES: Let me just say, we're acutely
4 aware of the challenges facing all of our contractors.
5 You know, no one, no matter how big you are, you don't
6 like to carry a balance on your books very long. It's
7 especially important to small businesses. We get that,
8 and we, in many cases, you know, we have worked with our
9 primes and with our small businesses, where possible, to
10 try to help relieve some of the pressure on the small
11 businesses in order to keep work going in the meantime.
12 We need to deal with it systematically and solve it once
13 and for all. We're on the verge of doing that now. You
14 know, I accept that this has been an ongoing problem but
15 I think -- and we have some differences from Caltrans,
16 for instance. They had multiple sources of money coming
17 in, different ways to pay contractors and make their --
18 make their accounts balance up. We're limited in the
19 source of funds that we have coming in, so it limits
20 some of our flexibility in that area, but with the
21 processes that we have put in place now with the FRA and
22 with clearing out these, it should, should be a much
23 cleaner situation going forward. And so -- and we're --
24 again, as Russ said, we have got 63 million invoices
25 pending there, so by the time we issue this next report

1 to the Board, you should see a dramatically improved
2 situation that we're then committed to maintain, but
3 we'll certainly come back and present whatever policies
4 would make sense, whatever we can do process-wise to
5 quantify those efforts, we'll certainly do that.

6 CHAIRMAN RICHARD: All right. At this
7 point, before we move to Mr. Morales, and I did have
8 some closing comments I wanted to make, but our reporter
9 needs a break, a number of us need a break. So why
10 don't we take a break for ten minutes. I'm going to
11 enforce ten minutes, and we'll come right back.

12

13 (Break taken.)

14

15 CHAIRMAN RICHARD: Okay. If I could ask
16 people to take their seats. We'll be back in order.

17 Before we -- before we turn to the last item on
18 the agenda, I just want to make a few comments on the
19 report from the Finance and Audit Committee, and I'll
20 keep them brief, but I do think it's, it's noteworthy
21 that this is a milestone for this project in my opinion.
22 And it may not seem that way to everybody, but what
23 we're endeavoring to deliver here is the largest
24 infrastructure project in the United States, and to do
25 that, we need to have an organization that can deliver

1 that project. And I will tell you that at times in the
2 past, when we were going through the legislative
3 appropriation process in 2012 and so forth and all the
4 attention was focused on the business plan, some of us,
5 I know Mr. Rossi and I had a conversation, were very
6 concerned about whether or not we had an organization
7 that could actually deliver the project that the
8 legislature approved. And at that time, I think that
9 was quite questionable.

10 Today, I think it's very clear that we do.
11 That's a testament to our CEO, Mr. Morales, and the
12 people that he has brought in. It's a testament,
13 frankly, to the Board, and I think we're fortunate to
14 have people of the experience that Mr. Rossi has and Tom
15 Richards has both in finance and in construction. So we
16 have been able to create, through the Finance and Audit
17 Committee, these systems. And I think, as we sit here
18 today, we have the most sophisticated risk management
19 program of any major infrastructure project in the
20 county, certainly, of any in the world. I think that
21 what we saw today is the creation of financial
22 reporting, budget and program management, and risk
23 management tools that are going to be very important for
24 this board as it discharges its governance
25 responsibilities but also to our colleagues in the

1 legislature, the Department of Finance, the
2 administration, and the public at large in having
3 insight into this program as it moves forward, and as
4 we're now on the verge of moving into the construction
5 phase of the project, it's going to be especially
6 important.

7 And the last thing I want to say about this is
8 that I hope that all of us, both on this Board, in the
9 legislature, in the public, in the press, are capable
10 and mature enough of understanding that projects like
11 this are going to have negative occurrences. We just
12 had a colloquy just before the break about an issue
13 that's of great significant to many of the people who
14 work on this project and that is the ageing of accounts
15 payable, where the news was not great, but it's getting
16 better. There are going to be things like that. As we
17 move forward, there are going to be bumps in the road.
18 There are going to be things that are starting to trend
19 in the wrong direction. The measure of how we do as an
20 organization is not whether or not we can avoid those
21 things, because no human endeavor can avoid those
22 things. The measure of how we do as an organization is
23 how we identify them and how we respond to them, and
24 that's what this was all about.

25 And so I, again, want to thank Mr. Rossi and

1 Mr. Richards for their work in Finance and Audit
2 Committee in getting to this point so that we now have
3 an ongoing stream of the tools for oversight and
4 governance, and I want to thank our staff, starting with
5 our CEO, but all of the folks that you heard present to
6 you today representing our CFO organization, our
7 auditing function, our risk management function, our
8 program management function. These are going to be
9 really critical things. They're under the hood.
10 They're not the big, flashy things that people like to
11 talk and write about, you know, who's suing whom and
12 what's happening in Congress and all of that, but it's
13 the under-the-hood stuff that's going to determine our
14 success in actually building America's first high-speed
15 rail system.

16 And so that's why I wanted to take a moment to
17 note it, because I think it actually is a very
18 significant milestone for this organization to be moving
19 into an area where we can build this program, and we can
20 have the controls to make sure that we're doing it
21 right.

22 So with that, I thank my colleagues and I thank
23 the staff, and we'll move now to the presentation of the
24 draft 2014 business plan.

25 Mr. Morales.

1 MR. MORALES: Thank you, Mr. Chairman. This
2 will only take an hour or so. I am going to present to
3 the Board and to the public --

4 CHAIRMAN RICHARD: You know you have a
5 quorum.

6 MR. MORALES: The good news is this is not
7 an action item.

8 We released the draft business plan. What I'm
9 going to do today is describe and summarize its contents
10 and the process that will go through as we go forward
11 with it.

12 First, it was noted by some of the commenters
13 that the 2014 draft is different in some ways than the
14 2012. That is absolutely true. One of the reasons for
15 that is that the 2012 plan, as you recall, was serving
16 multiple purposes as the legislature was considering on
17 appropriations and it was as a new team was coming on
18 and laying out a new direction. This plan is not laying
19 out a new direction. It is building on the direction
20 that was provided in 2012, and it is very specifically
21 tied to and addresses the statutory requirements of the
22 Authority in terms of what needs to be in a business
23 plan and what the legislature will be reviewing and
24 looking at.

25 The plan was released last Friday, and that

1 starts the statutorily required 60-day public comment
2 period, and we'll talk more about the comments and how
3 we'll be taking those comments and working with them.
4 But it -- really, again, this plan is more of an update
5 than the last plan, building on both the basic plan and
6 the business model that was laid out, but providing
7 updates of ridership and cost estimates.

8 One important note I want to stress throughout
9 this business plan, it is informed by expert external
10 input. We have gone out, in some cases, at the request
11 of the legislature and then also at the initiative of
12 the Board, and staff and have really gone out to obtain
13 the best thinking in the world about how to move forward
14 with this program, and so we have gotten that input from
15 all over the country and even all over the world, and
16 you'll see that reflected in the product in this plan.

17 Now, just to walk through the sections of the
18 plan quickly. The first section -- and we're really
19 reminding people what this program is about, and it's
20 about connecting California, connecting Californians and
21 going through the progress, and I think the key point
22 here is on progress. The progress that we have made on
23 the program and on key milestones, also, the progress
24 that we have made in terms of improving our processes
25 that develop and lead to the cost estimates, the fair

1 box revenue, the demand modeling, and the economic
2 analysis, significant improvements in all of those,
3 again, informed by expert external input.

4 Section two of the draft plan. Again, it builds
5 on and is consistent with what was laid out in 2012 in
6 terms of the basic nature of how we're going to do this,
7 with assigning risk to those who can manage it best and
8 bringing in the private sector into the program as a key
9 partner in delivering it. I do want to note, we are, in
10 many ways -- although, we always think of private sector
11 involvement when it comes to equity, key elements of
12 that are starting already also with the private sector
13 involvement through the design build process, where we
14 gain the expertise of the private sector and their
15 initiative, and so it really is not just about when we
16 ultimately bring on a concessionaire, but it is starting
17 already.

18 Section three deals with capital and life cycle
19 costs, and it's worth noting that the capital costs, the
20 projected costs for the system, the 68 billion, are
21 essentially unchanged. They're actually down slightly,
22 but that's due to the forecasting. There were some
23 question raised about why we are -- why we include phase
24 one, and the reason is very simple. That's specifically
25 what the legislation calls for, and it directs us to

1 provide in the business plan the phase one costs, and
2 that's what we're doing. So that's specifically
3 responsive to that. In the cost estimates, and in
4 particularly the life cycle cost estimates, which are
5 looking out over thirty, forty, fifty years of, of
6 operation of the program and what the costs are on an
7 ongoing bases, we start to see introduced the Monte
8 Carlo analysis that John Tapping spoke to earlier, where
9 we do multiple simulations of costs and variations to
10 really help us improve the reliability of our forecasts.
11 With regard to the demand modeling and the fair box
12 revenue estimates, again, we have utilized not just
13 point estimates but Monte Carlo analyses throughout to
14 look at different permutations, test the sensitivity,
15 and ultimately, the reliability of these estimates, the
16 comfort level that we can have. This is an element that
17 was not in the previous plan. It's not in most plans
18 for any programs. It's an additional step. It's
19 really, again, where we're on the leading edge of
20 managing this program, and so we're able to say that not
21 only can we project that we will be able to break even
22 ultimately in the financial analysis, but we can also
23 say what our level of confidence is in those forecasts.
24 So it really is providing the public and decision makers
25 with a much enhanced tool to be able to evaluate the

1 program.

2 In terms of the summary, the ridership levels are
3 up from the last plan. The revenues are down slightly,
4 and the reason for that is the new inputs into the
5 model, which are -- it's not actually -- it's not
6 modeling. It's actual data based on surveys showing
7 that, in fact, there's been a higher growth in shorter
8 trips within the state; faster growth than the long
9 trips, and in our modeling, shorter trips produce lower
10 revenues. So if we have a disproportionate growth in
11 shorter trips that tends to drop our overall revenues,
12 and so that's why you see that difference. But I do
13 want to point out that we're still well within the
14 bounds and are able to recover fully the costs and have
15 net positive cash flow in spite of that. And it's also
16 important to note, nowhere in this plan do we optimize
17 these results. And by that, I mean, the fact that I
18 just talked about where you would see a higher growth in
19 shorter trips, when we get closer to operation,
20 certainly, as a private operator would look at that, the
21 operator would say -- wouldn't accept that as an outcome
22 and would look to either, potentially, use pricing or
23 other mechanisms to get more revenue out of those short
24 trips or potentially discourage shorter trips on the
25 system, because a short trip also means someone who is

1 going a long distance may not be able to get a seat.
2 Nowhere in this plan do we optimize for those sorts of
3 things. That's something we'll do in subsequent plans.
4 It's something that the peer review group has talked to
5 us about the need to do as we get closer to operation.
6 All of that, though, again, improve the financial
7 performance of the system from where we are today.

8 Operations and maintenance, and we have had
9 extensive input from all around the world. We have
10 just, most recently, had representatives from multiple
11 countries and multiple systems here in San Francisco
12 meeting with us and doing workshops to look at all of
13 our calculations and how we are looking at operations of
14 maintenance so that we can really make sure that we're
15 factoring in how a high-speed rail system works, because
16 obviously, we don't have that sort of system here in the
17 US, and so we need to make sure that we're looking at
18 external models to get that.

19 We see associated with that higher ridership that
20 I talked about, higher ridership means more trains
21 running, so we see an increase in O&M, in Operations and
22 Maintenance there. We also see some up front changes in
23 the O&M costs due to some higher fixed costs than we
24 assumed in the plan in 2012, and that's detailed in the
25 draft plan. The key to the financial analysis again,

1 really, it's tying together the different forecasts, the
2 forecast of demand modeling, of the revenues, and then
3 the O&M, putting those together and saying, does the
4 system work, and the answer is yes, it does. Continue
5 to show that the system is viable and the Monte Carlo
6 analysis shows that we can be very confident in those
7 results by running some 5,000 variations of the
8 different outcomes that produces then a level of
9 certainty that is extremely high, that when we say we
10 will hit the break even cost of this, meaning that we
11 will not require a subsidy, a key component of Prop 1-A,
12 we can say that with as close to 100 percent certainty
13 as I think anybody could get. It is still a forecast,
14 obviously, but by utilizing these tools, we're able to
15 provide a much higher degree of assurance of what that
16 outcome will be.

17 Economic impact. Again, no significant change
18 from what was in the 2012 plan in terms of the benefits
19 that the State will receive, and here we used an
20 extensive review process for determining benefits and
21 costs based -- and has a significant input from the
22 Government Accountability Office, Federal office that
23 looked at this program and that, in fact, concluded that
24 what we are doing is, again, at the leading edge in
25 industry practice. And the benefit cost ratio, for

1 those who are familiar with those, that basic thing is
2 you need a benefit cost ratio typically of at least 1.0,
3 meaning you're receiving as much benefit as it's costing
4 you for the program to be viable. We have a benefit
5 cost ratio of over 2 for each phase of the program. So,
6 again, see significant benefits coming in the form of
7 job creation and other, other factors.

8 Management. And just to follow on the comments
9 that the -- Chairman Richard made, this really
10 underscores, again, we are on the leading edge of risk
11 management in terms of applying it in a program. We
12 worked very closely with academics and industry
13 professionals around world. Mr. Flyburg or Fluburg --
14 Mr. Rossi, you may correct me on the pronunciation --
15 which is one of the leading experts on this, and widely
16 cite, out of Oxford in England. We have been working
17 with his people to look at their findings and
18 incorporate them into our program and really use risk
19 management as not just a way of identifying the risks
20 but managing those risks and injecting that into our
21 program and providing that transparency, some of which,
22 I think, again, was shown in the previous presentation,
23 of making sure that this board and the public and others
24 understand and what challenges we face and how we are
25 managing them.

1 As far as moving forward with the comments, we
2 have multiple ways to receive public comment. If you go
3 on the website, it provides all these points of contact
4 people can submit. There's a comment form on the
5 website that's very user friendly to provide. We can
6 also take them in writing, over the phone, and in the
7 public comment periods at the board meetings. All --
8 each and every comment that is received will be
9 reviewed. Each and every comments will be made
10 available to the Board for their review. When there was
11 discussion in the memo and there was a question about
12 what it will mean for staff to summarize for the Board,
13 what that will be is really sorting comments in order
14 for the Board to look at them and understand, for
15 instance, that we got -- 72 percent of the comments were
16 relating to one particular area of the reports. So it's
17 really about the analysis of comments so that the Board
18 can understand where the focus has been, but the full
19 comments will be made available to the Board so that
20 they can consider them.

21 Where we go from here. So the plan is now out
22 for that 60-day comment period. We have already
23 received some comments. I think we got the first half
24 dozen or so over the weekend, and we'll continue to take
25 them in on a rolling basis and analyze them, look at

1 them, and recommend changes where we think it's
2 appropriate to do. The plan is that at the April 10th
3 board meeting, we would come back to the Board with a
4 proposal for -- with recommended changes and hear from
5 the Board its comments about what needs to be changed in
6 order to adopt then a final 2014 business plan and then
7 submit that to the legislature as required on May 1st on
8 schedule.

9 CHAIRMAN RICHARD: Thank you. That was a
10 very nice summary. Appreciate it. Questions or
11 comments from the Board?

12 Ms. Perez Estolano.

13 MS. PEREZ-ESTOLANO: What is the process in
14 terms of the outreach, just getting this information
15 that the updated plan is available for comment, for
16 review? Are we sending it out to, like, transportation
17 agencies, the planning MPOs? How are we doing that, or
18 I'm not sure if we have a responsibility, but I think we
19 have a duty to certainly try to get that out.

20 MR. MORALES: We have various ways of doing
21 it. One is we issued a press release when we put it
22 out. It's on the very front page of our website,
23 prominently displayed, certainly. So when anyone goes
24 to the website, they'll see it right there. We do work
25 directly with our stakeholders to make them aware of it

1 and invite their comment. We're doing that also through
2 our regional directors, taking responsibility for
3 dealing directly with the people within their areas. We
4 expect we'll get -- we did certainly the last time --
5 got a significant number of comments from around the
6 state and would expect the same this time.

7 MS. PEREZ-ESTOLANO: Thank you.

8 CHAIRMAN RICHARD: Other questions.

9 Mr. Rossi.

10 MR. ROSSI: Jeff, the earlier speaker talked
11 about disappearance of a number from the -- from the
12 plan. Would you like to explain what that was all
13 about.

14 MR. MORALES: Sure. Well, again, I think
15 the last plan was serving a number of different purposes
16 in terms of really baselining where the project was,
17 staking out what the options were going forward. And so
18 it had things that weren't required in the plan and that
19 really, as we move forward, I would just say, are not
20 relevant in that it's putting out some hypotheticals
21 that have no real basis in reality. So what we are
22 putting forward now in the estimate is our estimate,
23 which is our best assessment of what the costs are both
24 in a current year basis and then on a projected basis.
25 We take that estimate and stress test it, subject it to

1 variations up and down looking at different factors, but
2 there is an estimate. There is -- there really is no
3 such thing as a higher or a low estimate. There's an
4 estimate, and then variations off of it. So what's
5 presented is what's called for by the legislature, which
6 is, on that particular matter, the estimate of what the
7 program cost is.

8 MR. ROSSI: It has been tested from the
9 projected to the necessary contingencies to the at-risk
10 probability basis through thousands of generations.

11 MR. MORALES: Yes. And, you know, I -- as a
12 general point, I think it goes back to the last
13 presentation also, and, Mr. Chairman, some issues were
14 made. I know we have people who feel very strongly
15 about this program. Some who will supported it no
16 matter what and some who will oppose it no matter what.
17 I think when you look at the numbers here -- and we are
18 talking forecasts, so they forecasts -- they're not
19 looking backward and testing, but we have doing by every
20 expert independent analysis. You know, we are doing
21 what is best practice on these, and so what we're
22 putting forward are the best numbers that we can on
23 these, our best analysis of what it is. People can
24 disagree on policy basis, but I think in terms of
25 numbers, the external validation speaks loudly.

1 MR. ROSSI: And also one other comment, and
2 I'd like to at least -- the 46, 48 billion cost is not a
3 YOE cost.

4 MR. MORALES: Right. There are many legacy
5 issues we deal with.

6 MR. ROSSI: But it would be nice if we all
7 were, sort of, talking about the same facts then.

8 MR. MORALES: Right. One of the challenges
9 we are -- and this is another area where this program is
10 unique. I'm not sure I can think of another program
11 anywhere that is required by law to put out a YOE
12 projection a year end expenditure projection of costs.
13 I wonder sometimes if people had known the cost of the
14 state highway system when it was first proposed whether
15 it would have been ever started or had known the cost of
16 airports, you know, in full, would they have supported,
17 supported, you know, the bonds and things to support
18 them.

19 We're required to put out a YOE number. That's
20 why we put it out. We start in a base year in this case
21 in this plan. We have updated to 2013 numbers and then
22 project out based on our expectation of the pace of
23 construction and the expenditure of dollars. That's how
24 you get to the 67 billion over time. Previous estimates
25 have used different -- have been -- have been based on

1 different assumptions and were based on different years.
2 So you had 2008 numbers. You can't -- it's not apples
3 to apples to take a 2008 fixed cost number and compare
4 that to a 2019 YOE number.

5 MR. ROSSI: Right.

6 MR. MORALES: They're very different
7 numbers, and so within the -- even with -- and some of
8 the assumptions, even the early projections of YOE the
9 Authority put out, assumed a 2020 end date on things.
10 So it makes it very challenging, and when people talk
11 about cost growth, it's, it's much -- it's not what it
12 appears on the face. And one of the things we are going
13 to look to do, I have talked to the -- or I should say
14 the chairman has talked to me about -- creating some
15 common baseline of how to help people understand what
16 those numbers are. They can reach their own conclusions
17 about what those numbers mean, but at least make sure
18 we're talking apples to apples to apples on the
19 different numbers.

20 CHAIRMAN RICHARD: And just on that point,
21 very quickly, I know we all want to move on, but to
22 reinforce what our CEO, Mr. Morales, just said about
23 whether people would have blanched at the, the year of
24 expenditure completion numbers, fully inflated numbers,
25 but an example closer to home, if you go to the bank and

1 you get a mortgage for your house for, say, \$400,000,
2 under the disclosure law, you will find a paragraph that
3 talks to you about what it is you will pay over the life
4 of that 15- to 30-year mortgage. And for a \$400,000
5 mortgage over 30 years, you'll pay -- what Mike --
6 \$750,000?

7 MR. ROSSI: Depending on interest rates.
8 This would not be a bad time.

9 CHAIRMAN RICHARD: Yeah, right. So most of
10 us don't walk around and say, "Oh, yeah, I got a
11 \$768,000 mortgage." You know, "How much is the mortgage
12 on your house?" You don't say, "Well, it's \$750,000."
13 You say, "I have a \$400,000 mortgage on my house." Even
14 though on a year of expenditure basis, fully inflated,
15 you're paying, you're paying this amount.

16 So we have been victimized by this, and it's
17 unfortunate. And I know that -- the reason I called
18 Mr. Morales to talk about this was there was an article
19 about the business plan in the Fresno Bee the other day.
20 The person who wrote it is a very diligent reporter and
21 was really trying to walk through what the evolution of
22 project costs is, but at some point, flipped over from
23 the current year dollars to the year of expenditure
24 dollars. We have not made it easy for people to
25 crosswalk those numbers, and even in the comparison of

1 first year dollars, people talk about the fact that,
2 well, the Bond Act said that this was going to be \$33
3 billion for the 520 miles, and now it's X. Well, as I
4 went back and read the ballot argument, it said that --
5 in 2008, it said that in 2006, it was estimated -- which
6 we presume was 2006 dollars, and then you compare that
7 to a current number that may be in 2010 dollars. And
8 now we update it in 2012 or 2013 dollars. Well, those
9 2006 dollars would have inflated up to some number. So
10 we have really gotten ourselves into a position. And I
11 say "we have gotten ourselves into a position," because
12 we have sort of allowed this to sort of degenerate to
13 where nobody can find way a to really compare. Has
14 there been growth in the cost of this program;
15 absolutely. Has it been at the level that people are
16 suggesting it has been; absolutely not. So I think it
17 would behoove us and be good for the public if we could
18 come back in the spirit of transparency that you saw
19 this morning and just say, "here is a way to make these
20 dollars all comparable on a constant year basis," and
21 then we -- and then we can talk about the drivers.

22 And I'll just end with this, it's not like this
23 program has been out of control and we haven't
24 controlled the contractor. The growth in these costs
25 has, in large measure, been because we're now seeing

1 what the societal costs are of building something like
2 this. So when we move the alignment to protect a
3 community, when we move the align to protect businesses,
4 we may be increasing costs. Those are the real costs
5 that are always there. They just weren't recognized
6 when people first drew lines on a map, and they reflect
7 what it really takes to build this and protect
8 interests. So I'd rather have that conversation than
9 get caught up in "is it 60 billion or is it 100
10 billion," because let's talk as a society about what it
11 takes to really build something like this, and then we
12 can have that conversation.

13 So I didn't mean to go on and on about this, but
14 I haven't had breakfast, and it's past lunchtime.

15 So with that, any other questions from members of
16 the Board?

17 Thank you, Mr. Morales. I thought that was a
18 very good summary, and thanks to the staff for the work
19 on the draft business plan. Thanks to my colleagues and
20 to the public, and we're adjourned.

21

22 (Whereupon the meeting adjourned at 12:42 p.m.)

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1 I, Brittany Flores, a Certified Shorthand
2 Reporter of the State of California, duly authorized to
3 administer oaths, do hereby certify:

4 That the foregoing proceedings were taken before
5 me at the time and place herein set forth; that any
6 witnesses in the foregoing proceedings, prior to
7 testifying, were duly sworn; that a record of the
8 proceedings was made by me using machine shorthand which
9 was thereafter transcribed under my direction; that the
10 foregoing transcript is a true record of the testimony
11 given.

12 Further, that if the foregoing pertains to the
13 original transcript of a deposition in a Federal Case,
14 before completion of the proceedings, review of the
15 transcript () was () was not requested.

16 I further certify I am neither financially
17 interested in the action nor a relative or employee of
18 any attorney of party to this action.

19 IN WITNESS WHEREOF, I have this date subscribed
20 my name.

21 Dated:

22 _____
23

24 Brittany Flores CSR 13460
25